

HELSINKI SCHOOL OF ECONOMICS (HSE)
Department of Marketing and Management



**ANALYSIS OF BUSINESS OPPORTUNITIES AND CHANGE FROM A
COMPETENCE-BASED VIEW**

**The development and testing of a competence-based framework to analyse moves into new
businesses**

9631

Organization and Management
Master's thesis
Robert Eden k70003
Spring 2005

HELSINGIN
KAUPPAKORKEAKOULUN
KIRJASTO

Approved by the head of the department of Marketing and Management 2 / 3
2005,

and awarded the grade excellent, 80 points
Kari Siipin and Risto Tainio

ANALYSIS OF BUSINESS OPPORTUNITIES AND CHANGE FROM A COMPETENCE-BASED VIEW

The development and testing of a competence-based framework to analyse moves into new businesses

Objectives

The objective of this thesis was to develop and test a framework that could be used in the analysis of moves into new and unfamiliar businesses. The framework is based on an internal view of the firm and its aim is to provide a practical tool with which to evaluate chances of success when responding to business opportunities and change.

Theoretical basis

The framework for analysing moves into new businesses builds on both the competence-based view and the resource-based view. It also relies heavily on the notion of “business logic” and draws influence from two other frameworks. Its central message is that success in responding to new business opportunities and change is based on the company’s ability to create new *customer benefits*. This ability in turn is based on the depth and strength of the organisation’s pool of resources, strategic resources, knowledge and competences

Research material and methodology

The empirical part of the paper is aimed at determining the usability and validity of the framework. This is done by first using the framework to analyse a case study and then comparing the findings to

real events. In practise this was done by comparing the findings of the initial analysis to a diary written soon after the actual case took place in 2003.

Findings and conclusions

The conclusion reached was that the framework does in fact work. It came apparent that the analysis was able to pinpoint the issues that were critical also in real life. The project used as the case example stumbled and fell over the very same issues that were deemed problematic by the analysis or where clear gaps in required resources were found. Some faults and shortcomings in the framework were also uncovered.

Key Words

Competence-based view, resource-based view, business logic, business opportunity, change.

INDEX

Pictures 5

1. Introduction..... 6

1.1 The idea and theme of the paper 6

1.2 Case company and research approach..... 7

1.3 Research problem 9

1.4 Structure of the study..... 10

1.5 Timeline of the study..... 11

Part I..... 12

2. Theoretical background..... 12

2.1 The need for a new view on strategic management 12

2.2 The Resource based view 16

2.2.1 Origins..... 16

2.2.2 Resources and capabilities as the foundation for strategy 18

2.3 Competence based view 19

2.4 Other important concepts and topics 22

2.4.1 Dominant logic 22

2.4.2 Distributorship and brand management..... 23

3.0 The framework for analysing moves into new businesses..... 23

3.1 Foundations for the framework..... 23

3.1.1 The basic relationship between internal components and the external world..... 23

3.1.2 The definition of resources..... 25

3.2 Putting the pieces together 26

3.3 Using the framework 31

Part II 32

4. The Case study 32

4.1 Introduction..... 32

4.2 The case company 33

4.2.1 Beginnings..... 33

4.2.2 A change in business idea 33

4.2.3 Later years and present day..... 34

4.3 The principal company 37

5. Old business logic vs. new 39

5.1 The business logic of *distributorship and brand management*..... 40

5.1.1 Determining customer benefits 40

5.1.2 Determining activities and routines 44

5.1.3 Determining strategic resources 46

5.1.4 Determining resources and capabilities 47

5.2 The business logic of direct mass purchasing consultancy and facilitation 51

5.2.1 Determining customer benefits 52

5.3 Comparison of the two business logics and making hypotheses 55

5.3.1 Comparing customer benefits..... 55

5.3.2 Comparing activities and processes..... 57

5.3.3 Comparing strategic resources 59

5.3.4 Comparing resources and capabilities 60

6. Testing the hypotheses 62

6.1 The diary	63
6.2 Later events	71
6.3 Accuracy of the hypotheses	72
Part III	76
7. Thoughts and conclusions	76
7.1 About the framework	76
7.2 On validity and reliability	77
7.3 Implications of the framework and suggestions to Direct Purchasing Partners Ltd	78
References	80

Pictures

- PICTURE 1. The structure of the study
- PICTURE 2. The four levels of residual uncertainty
- PICTURE 3. Resources as the basis for profitability
- PICTURE 4. Top-down approach to competence-based management
- PICTURE 5. PARK-model
- PICTURE 6. Domain of capabilities of a technical trader
- PICTURE 7. Framework for analysing moves into new businesses
- PICTURE 8. Direct Purchasing Partners service chain

Tables

- TABLE 1. Distributorship and brand management business logic
- TABLE 2. The direct purchasing consultancy and facilitation business logic
- TABLE 3. Comparison of customer benefits
- TABLE 4. Comparison of activities and processes
- TABLE 5. Comparison of strategic resources
- TABLE 6. Comparison of resources and capabilities

1. Introduction

1.1 The idea and theme of the paper

In business, change can be almost anything. It can be a move into new markets or a shift in company strategy and structure. Diversification can also be thought of as being nothing more than change in a broad sense. A company trying its luck with a new business also means change. In fact, Rumelt's short definition of the essence of diversification serves well as a basis for our discussion about change. According to Rumelt: *"the essence of diversification is taken to be a 'reaching out' into new areas, requiring the development of new competences or the augmentation of existing ones"* (Rumelt, 1988).

What is relevant here is the notion of competences. A company survives change only if it is successful at leveraging on its old resources, skills and competences, as well as creating new ones. Knowing what exactly triggered the change and where did the need for it come from are not as important as being successful at responding. Thus, this thesis is about being successful at change and at "reaching out" into new areas.

The paper revolves around a framework whose purpose is to give something concrete to work with when thinking about change. It does little good to just think about it on a theoretical level, and the purpose of the framework is to make theory more practical. However, this framework does not exist yet and the aim of this thesis is to build it. After that has been done, the framework will be tested and its usefulness evaluated.

The framework coming under construction will draw its theoretical background from an internal view of the firm. Currently there are a number of "schools of thought" that all take an internal perspective to the business organisation but with slight differences in emphasis. From these schools, perhaps the so called competence based view and the resource based view are the most heavily influential in this thesis although the framework will draw influence from a multitude of areas.

The idea of competence based management became popular in the late 1980s after Prahalad & Hamel published their books and articles on the subject. According to the competence based view, a

firm is a learning organisation that builds, deploys and exploits assets, capabilities and skills in order to achieve strategic goals (Hamel & Heene, 1994). This view parts from the more conventional view on strategic management in that the emphasis is more on internal processes and activities than on outside pressures and events. "Old School" strategic management literature, taught by the likes of Porter, concentrates on analysing external matters such as the industry and market place in order to assess and devise a plan of action and long-term strategy for a firm. It thus relies on the notion that future events and changes in the business environment can to a large extent be forecasted and that company strategy and structure can be adapted accordingly.

The competence based view and especially the resource based view on the other hand take the position that such forecasting is not in this day and age possible. Changes are simply too fast and too frequent. Instead, efforts should be made to build and sustain resources and competences that can be used to help survive the inevitable upheavals and changes that will happen in the firm's environment. The rough idea is that a firm with ample resources, skilful people, a large knowledge base and the ability to create and sustain unique sets of competences will survive and adapt regardless of whatever the future may bring. Indeed, in the words of Collis & Montgomery: *"...a company will be best positioned to succeed if it has the best and most appropriate stocks of resources for its business and strategy"*. This is also why resources and competences serve as the binding themes for this paper.

Concepts such as "business logic" and "business idea" are also central to this study. They are mainly used to denote a single business unit with all that it beholds. The concepts also help in explaining the starting point and context in which change takes place. Why does a company react the way it does and why does a company have, or lack, the resources that it has. These questions can be partly answered by the mentioned concepts.

1.2 Case company and research approach

After the framework for analysing business opportunities and change is constructed and described, the paper moves onto testing it with the help of a real life case. The case is about a 30+ year old trading company that comes across an opportunity to become the distributor of a well known sporting goods brand. This new business venture, although not very far from the company's original business idea, presents us with an opportunity to analyse a jump into a new area of business for this

company. The case example is used not only to illustrate more thoroughly the framework, but also to test its usability. In other words, the framework's ability to function as a tool for reflection about a given business opportunity and change situation is assessed and critically evaluated.

The later part of the paper thus comprises the empirical part of the study. However, the word "empirical" might not be the most apt word to describe the research method and approach. This is because the case study consists of three parts:

1. The detailed description of the business logics of both the case company and of the new business it wants to enter
2. Finding resource compatibilities as well as gaps between the two logics
3. Comparing these findings against a narrative about what took place in reality

The case study is thus aimed at bringing forth points from a comparison exercise that are then verified or falsified against real events. It is the verifying vs. falsifying exercise that could mostly be called the "research" or "empirical" part of the paper but it does not directly follow any established research approach.

Perhaps the one approach that is the closest and that could be used as a point of comparison is that of "action research". This comes from the fact one of the most central themes in action research is the researchers own participation in the events that are being recorded and reflected upon (Heikkinen, Huttunen & Moilanen, 1999). The narrative mentioned earlier is my own diary about the studied case in which I was personally very much involved in. Following from this it would be possible to call this thesis an action research study.

However, one important criterion is not met for this to be action research in its purest form (if anything can be called that). Action research is most often said to be aimed at improving things through intervention and observation followed by reflection and the creation of new practises. These elements then follow each other in a continuous spiral as depicted by Carr & Kemmis (Heikkinen, Huttunen & Moilanen, 1999, p. 67). The diary I wrote reflects intervention, observation and reflection but it is used for a different purpose than creating new practises.

The use of the diary in this study follows a more conventional approach to research. From a positivistic point of view, research is intended to provide truths about the surrounding world and the job of the researcher is to produce verifiable and accurate information about what is being studied.

The diary then is supposed to act as the “truth” against which the findings of the comparison exercise are measured and verified. The study is not aimed at improving the work practises of the case company and the spiral mentioned above ends on its first round. The diary and other vital information are produced according to action research practises but are used in a manner that follows a more realist view of science. It thus does not strictly meet the criterion of either action research or conventional research and ends up being a hybrid of both.

1.3 Research problem

My interest towards further investigating the competence based view and the resource based view, and hence building this thesis around these concepts, has largely been fuelled by the lack of practicality associated with classical strategic management theories. The idea of viewing a firm as a portfolio of strategic business units, and concepts such as strategic-fit, generic strategies and strategic hierarchies are very helpful in thinking about the nature of business, but provide very little help in the everyday management of a small company. In addition, it has become almost a farce how often it is mentioned how classic management theories are outdated due to their pre-assumptions about market equilibrium and slow-paced and predictable change in the business environment. This perhaps is the biggest point of criticism towards established management theories. It seems as if every paper about management begins by stating that most theories out there are outdated and that new holistic, dynamic, cognitive and systemic theories are needed (Sanches & Heene). The competence based view is heralded as the new wave of management theory, and it shows promises of bringing management research a few steps closer to reality.

However, since the use of competence and resource based views in management research is a relatively new practise, very few clear examples of their use can be found. Only very shallow and limited case studies are available, and most of the literature about the subject concentrates on explaining the importance of the theory but falls short of explaining exactly how to use it. Small glimpses of how to implement the concepts into practise pop up here and there, but that is about as

good as it gets. It is clear that this arm of research is only getting started and trying to define itself. One is left on their own to build fitting frameworks and management tools.

Thus, the aims of this study are to:

1. Build a framework that is based on an internal view of the firm, and that can be used to evaluate the chances of success when moving into new areas of business or industries.
2. Determine the usability of the framework for the purpose it is intended for.

1.4 Structure of the study

The paper is divided into three major parts indicated in roman numbers. The reason such a division has been made is to help the reader understand the structure of the study better. Moreover, the paper divides into three parts in a logical sense.

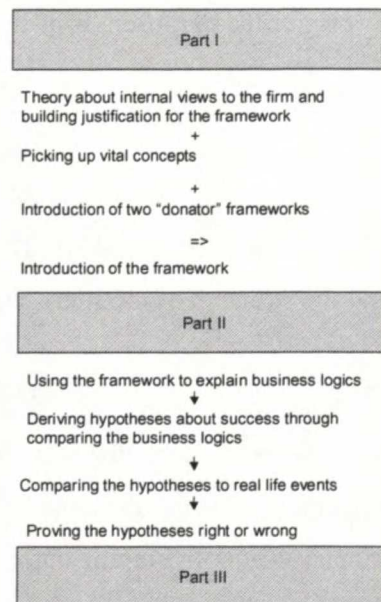
The first part of the paper is on theory. Its aim is to specify what the framework is based on and how it relates to modern strategic management studies. Two of the most influential internal views of the firm will be briefly introduced with the emphasis put on bringing out vital concepts to be used in the framework. This is to say, they are explained and opened up as a means to arriving to points that shall be put aside and used in the building of the framework instead of explaining them as if teaching them to someone. The first part of the paper ends with the building and definition of the framework.

Part two is all about testing the framework and determining how well it provides advice in situations where companies move into new businesses. Its power to predict is put on test. This is done by comparing the results of an initial analysis against real life events. Thus, part two consists of the initial analysis and a retrospective about what really happened.

The diary, which is to act as the “truth” against which the findings of the analysis are compared, was written in autumn 2003. I began writing it as soon as the project was officially ended in September 2003. The diary covers a time period of one purchasing season, or about 5-6 months which starts from preparing for the season and ends at the planning of the next season. In this case, the purchasing season begun around February-March 2003 and ended in August 2003. The text is

based on my own personal experiences and memories and it does not give exact dates for when things took place. In this sense, it is more like my memories from that time period than a diary with dated entries written along the way.

Part three is reserved for conclusions and reflection. In addition, matters such as reliability and validity are discussed. The picture below provides a graphic illustration of the structure of this thesis.



Picture 1. The structure of the study

1.5 Timeline of the study

As this thesis has been written over a long period of time and in multiple phases, it is useful to sketch out more clearly the relation of events in terms of time.

1. The distributorship was awarded to the case company at the end of 2001
2. I was first introduced to the project at the end of 2002
3. Preparations for the Spring/Summer 2004 begun in the beginning of 2003 **(period covered by diary)**
4. Actual sales period started April 2003 and ended in August 2003 **(period covered by diary)**

5. Project ended in September 2003
6. I first started writing this paper in September 2003 by writing the diary
7. 2004-2005 gradually writing the thesis
8. Beginning of 2005 thesis completed

Part I

2. Theoretical background

2.1 The need for a new view on strategic management

Strategy has been studied and taught at business schools as a theoretical subject for about 30 years. Much of the world of strategic management is still dominated however by some of the earliest theories. Although it is widely agreed upon that the substance of strategy is complex with a multitude of points of view, all with equal relevance, the new perspectives still seem to be somewhat overshadowed by the “old schools”. The word “school” here refers to the many perspectives or points of view of the same subject – here being that of strategic management.

In the book *Strategy Safari, a guided tour through the wilds of strategic management*, Mintzberg and colleagues state the following: “ *strategic management has commonly been portrayed as revolving around the discrete phases of formulation, implementation, and control, carried out in almost cascading steps*”. This particular view on strategy is what the old schools stand by.

The writers later go on to say: “ *The three prescriptive schools have so dominated the literature and practice that we find it appropriate to include rather extensive discussions that bring much of this conventional wisdom into question*”. (Mintzberg et.al, 1988)

For the most part, the criticism is directed towards a set of assumptions that the classic schools of thought are based on. These assumptions are:

- Central role of conscious thought in strategy formation
- Thought precedes action
- Organisation must separate the thinkers from the action
- Enough about the future can be seen and predicted to formulate strategy

Following from these assumptions, a company can conceive a strategy by making a SWOT analysis (strengths, weaknesses, opportunities and threats) and by finding a *fit* between the different components. In other words, the directors of a company identify the strengths and weaknesses of their firm, and try to match them with opportunities and threats that they can see in the market place. After this they make an action plan that is then implemented and followed. Moreover, the planning procedure would be repeated year after year at a set date, for instance every 24 of August. Here we can see the assumptions of **1. conscious thought 2. thought precedes action 3. thinkers separated from the implementation and 4. accurate predictions about the future** in play. Like stated above however, strategy is complex with a multitude of points of view. The new schools of thought have concentrated on bringing these differing views into the forefront and disagree with the four assumptions of the old schools.

For instance, much criticism has been directed at the idea of predetermination and predictions about the future. Makridakis, one of the leading experts in business forecasting, wrote: *“Long-term forecasting is difficult and challenging for two reasons. First, the long-term future is not simply an extrapolation of the past because of technological and other changes. Second, humans, in their attempts to profit from and influence what will happen, can and do change the course of future events to achieve desired goals. The long-term future is not, therefore, predetermined and cannot be predicted except as it unfolds”*. (Makridakis, 1995, p.14)

Much has also been written about the dangers of separating the thinkers responsible for creating long-term strategy from the doers or implementers in the organisation. Ikujiro Nonaka & Hirotaka Takeuchi, leading experts in the study of knowledge creation, attribute the success on Japanese companies to their ability to create and disseminate knowledge throughout an entire organisation. This ability in turn they attribute to something they call “middle-up-down management process” that can be found in Japanese companies. The central role in the model they propose is played by the middle-management who is close enough to have hands-on knowledge of everyday business but who also have the possibility of aggregating that information for top managerial purposes. Main

point here being that actionable strategic plans can not be produced at the top of the organisation without the use of tacit knowledge created at the shop-floor level. (Nonaka & Takeuchi, 1995, p. 126).

Many of the differences between the old and new schools have to do with the concepts of *intended* strategy and *realized* strategy (Mintzberg et.al,1988). The former refers to the SWOT approach mentioned above and the latter has to do with what really happened and how strategies really get made. Theoretical strategy literature has increasingly begun to admit (although already long ago realized) that things don't always go as planned and that plans get made on the go. The strategy that was *intended* turned into something quite different when implemented in real life and a *realized* strategy emerges when looking back at past events.

Even the great 18th century Prussian strategist Carl Von Clausewitz made a point in his book "*On War*" about what he called friction. By this he meant all the small but inevitable things that get in the way of ones plans and ultimately dictate what the outcome will be (Clausewitz, 1968, p. 168). It is thus very curious that modern strategy theories beginning from the 60s assume the implementation of a plan to be nothing more than a procedure. Much of the current management literature criticises this assumption, and instead describes the plan-as-you-go nature of strategising.

The two extremes of thinking about the emergent nature of strategy are fully intentional plans carried out by flawless implementation on one hand, and totally lazes-faire happy-go-lucky strategizing on the other - One assuming no friction at all and the other abandoning planning altogether as impossible. Reality of course is something in between and it is this middle ground of the two extremes that has spawned the multitude of new theories. Mintzberg has identified 7 of such new differing views (Mintzberg 1998). Whittington on the other hand decided to pick a smaller number, and has divided all the available theories into 4 categories of which 1 represents the "classic" schools and the remaining 3 the myriad new points of view (Whittington, 2001).

What binds these new schools together is their incorporation of chance, *friction*, human behaviour, dynamic markets, learning, unpredicted market opportunities and unintended consequences into the strategy process. Each school of course gives varying amounts of prominence to the different factors, and thus places them on different positions on the line between the extremes. For instance, the environmental school from Mintzberg's classifications sees strategy formation as a purely reactive process thus representing the closest to the lazes-faire end of the pendulum. Here the main

players are the external forces and unpredicted market opportunities which set the agenda for passive companies who are left with no choice but merely to react (Mintzberg, 1998, p. 286). The same idea, but with a twist, was presented by Richard Whittington in his classification of perspectives on strategy. One of his four perspectives is called “evolutionary” in which the survival of a company is explained mainly in Darwinian terms as *survival of the fittest* (Whittington, 2001).

The main point to be understood is that besides representing steps away from the assumptions of the classic schools, the new schools make their own attempts at explaining the true nature of strategic management more accurately. Efforts are made to bring theory closer to reality by incorporating factors that other theories disregard or simply miss. However, by judging from the sheer number of different theories and points of view it is clear that not much of a consensus has been found. The need for a new view on strategic management has not gone unanswered but the volume of responses is deafening.

One of the latest and more influential new ways of trying to study the business organisation has been to look inside of the firm – to adopt an internal view of the business organisation. Schools of thought like the resource-based view, diversification research and the competence-based view have arisen from this new trend. The path by which they have been said to have developed suggests that the resource-based view came first. Although other versions do exist, this is the path we will explore more thoroughly in the following chapters and that shall be used as the method for arriving to and picking up vital concepts and ideas to be used in the coming framework.

A point should be made here that the different topics, concepts and schools of thought shall only be briefly overviewed leaving out most of their nuances and intricacies. This is because each of them would otherwise be large enough to make for a thesis on their own. Instead, emphasis shall be put on the aspects of the concepts that are central to the framework under construction. The next chapter, explaining the resource based view, is intentionally more detailed and thorough than the others because its purpose is explain why an *internal perspective of the firm* is adopted in the first place in this paper. It gives reason and motive for this thesis.

2.2 The Resource based view

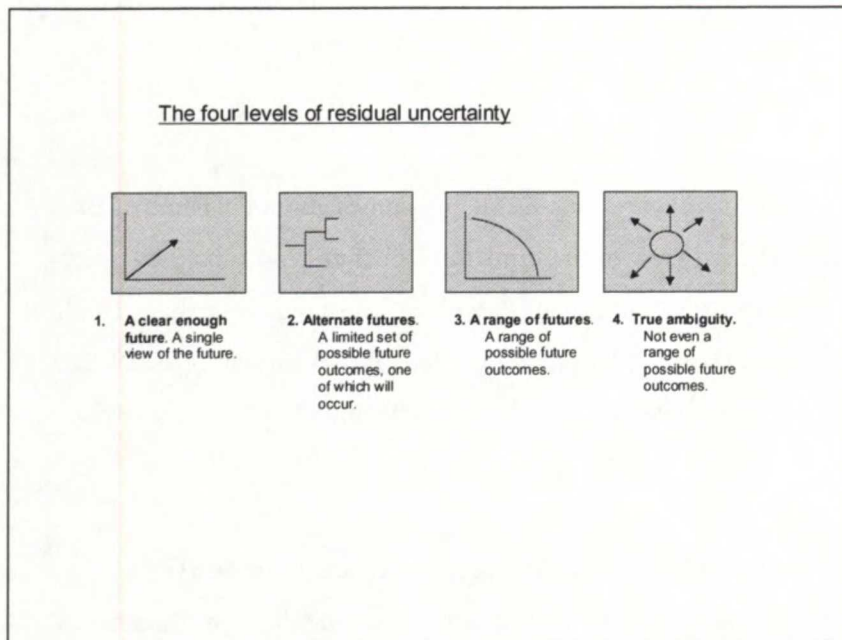
2.2.1 Origins

When tracing the origins of the resource-based view, one inevitably comes about the name of Birger Wernerfelt. His article “The Resource-Based view of the firm” published in 1984 is held by many as the starting point for the talk about resources and capabilities (see for instance Mintzberg 1988, and Wernerfelt, 1984). Others researches (Barney, Montgomery, Peteraf, Sanches and Heene) then picked up on where Wernerfelt left off and carried on defining the field and clarifying some of its main points.

The resource-based view rests on the idea that resources and capabilities are at the heart of a company’s competitive position. It also takes the view that resources provide the basic direction for a firm strategy, and that they are the primary source of profit for the company (Grant, 1991). Following the path pointed by Wernerfelt, researches began searching for answers to questions such as ‘why are some competitors more profitable than others’ and ‘where can a company find a sense of balance in the long run’ by shifting their focus from the external world to the internal (Collis & Montgomery, 2002). There are however a couple of more specific reasons for the shift in focus.

Uncertainty, environmental complexity and continuous disequilibrium are often named as the main culprits for causing the attention of researches and practitioners to turn from the external to the internal (Sanches & Heene, Collis & Montgomery). More and more the business environment is being characterised by words such as volatile, a-periodic, dynamic, nonlinear and unpredictable. In other words, the external environment has become extremely difficult to analyse in any meaningful way – perhaps even impossible. In such an environment companies are forced to follow adaptation strategies, which in turn find their strength from inside the organisation.

In a book called *20/20 Foresight, Crafting strategy in an uncertain world* Hugh Courtney describes strategies for dealing with uncertainty that remains when all possible efforts are made to separate the unknown from the unknowable. He has termed the unknowable as *residual uncertainty* because it is all that should reside after rigorous analysis has ridden the unknown. He then goes on to break this residual uncertainty down into 4 levels or types according to certain characteristics and to describe strategies for dealing with each level. The picture below depicts these levels.



Picture 2. The four levels of residual uncertainty

Courtney discusses at length different strategies for tackling the levels of uncertainty and two major approaches are suggested. When a company can foresee how the environment might change in the future, it is left with the choice of either trying to actively shape the changes into ones advantage or alternatively prepare to adapt to them. As argued before, most companies today face very high levels of uncertainty and very few have the power to shift entire markets. Hence, the best strategy for most to follow is to become effective at adapting. Courtney later concludes; *"...in level 3, adapters focus more on strategies that emerge as events warrant...Level 4 adapters often focus on strategy as organisation – making sure they have the right people, systems, culture, and governance processes in place to identify and adapt to opportunities as they become clarified over time"*. (Courtney 2001, p.52)

Another reason for the shift in focus was the failure of external analysis to provide answers to the failure of large corporations in the 1980s. Despite the fact that organisations such as IBM and GM had legions of highly trained strategic planners, they soon found themselves struggling to survive. On top of this, they could not explain the failure of their firms with the planning and analysis tools they had been using.

As a result, a whole set of new approaches emerged that attempted to provide answers to difficult questions. Many of these approaches looked inside the organisation for these answers, and new ideas such as TQM, BPR and the learning organisation surfaced (Collis & Montgomery). Interestingly Collis and Montgomery added also core competence thinking and competing on capabilities into the above list of newcomers, but did not add the resource-based view. Instead, they introduce it as a new framework to build on top of ideas such as competence thinking. This view seems to contradict what had already been said about the origins of the resource-based view, but the majority opinion is still on Wernerfelt's side.

2.2.2 Resources and capabilities as the foundation for strategy

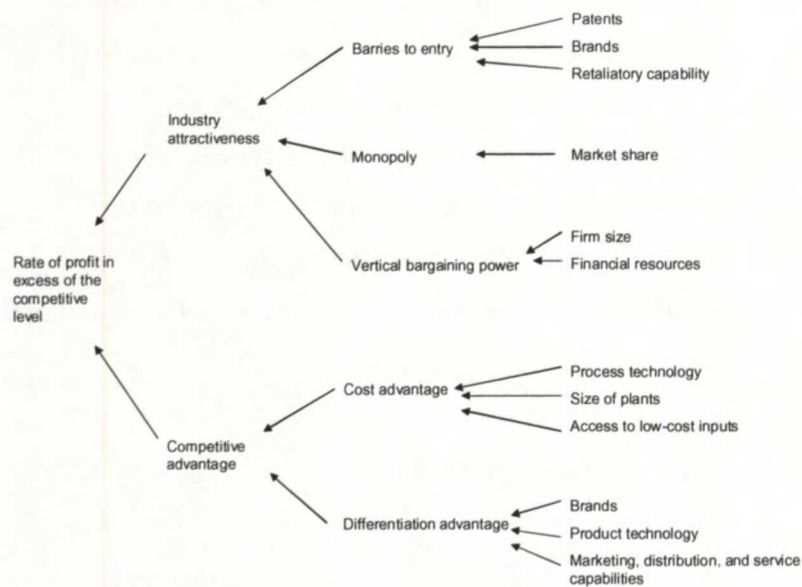
All companies operate in an industry or competitive field of some sort. More over, they do so together with other firms and organisations who are all trying to maximise the benefit they get from the industry that they are in. In other words, everyone is trying to get as big a piece of the pie as possible, and the means by which this pie hunting is done is through the process of building, sustaining and leveraging competitive advantages.

Competitive advantages then are at the heart of business strategy. They are what the firm uses to create products and services that customers are willing to pay for and they are what to company uses to defend itself from its rivals. They grow fundamentally out of the value a company is able to create for its customers and they can come in the form of prices lower than competitors, higher than average quality or other valuable benefits that the customer perceives (Porter, 1998). It then follows that firms should be more than interested to know what exactly are competitive advantages and what are they made of.

From a resource based view the answer to this question is simple:

$$\textit{Competitive advantage} = \textit{strategic resource or capability}$$

The idea here is that when looked at closely, competitive advantages are almost purely based on the resource position of the firm. Robert M. Grant captured this idea nicely in an article published in the California Management Review with the following diagram:



Picture 3. Resources as the bases for Profitability (Grant, 1991)

Almost everything on the right side of the diagram is either a strategically valuable resource or a unique capability. Especially the components of competitive advantage are based on resources. For instance, a company competing on differentiation opposed to cost advantage must have resources such as brands, unique designs, logistics facilities etc. that other firms don't have. A differentiating resource such as a unique design (or the *capability* of producing them) can once again be broken down into a still more specific set of contributing resources like creative individuals within the company, advanced creative computer software, well developed creative process and other such things. Differentiation strategy is based on being different in a meaningful way. This idea in turn has to rely on the fact that a company has resources to put it all into action.

So, if competitive advantages are at the heart of business strategy and keeping in mind what was just said about resources, one begins to understand why it makes sense to look inside of the organisation for direction in strategic management. Adopting a resource-based view is about trying to get to the root of the **sources** of competitive advantage.

2.3 Competence based view

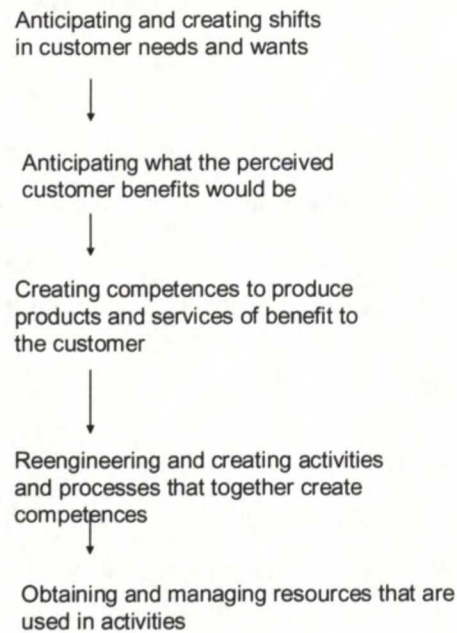
Much of the resource-based view is preoccupied by the idea of creating and maximising Ricardian rents (return on resources employed) on a firms assets. It is suggested that this is done by

accumulating scarce and valuable resources. Then the challenge is to keep them hard to copy, hard to find and in full use.

Resources don't however do much on their own. Instead, it's their coordinated deployment in specific value creating activities that matter. This is also where we begin to move into the realm of the competence based view. More specifically, a well coordinated bunch of value creating activities can result in a core competence. The idea of activities is also something that shall be held for further use in this paper.

Researchers of the competence based view, especially Prahalad & Hamel, bring into the task of creating forward looking strategies a very important additional piece of the puzzle. They suggest that because a company can not exactly know how an industry will evolve, it has to widen its options by investing into competencies that are applicable in a wide variety of ways. For instance, they write of Toshiba who followed the ideas of the competence based view by investing heavily into competencies in flat screen technologies. This pre-emptive investment decision was based on the vision and belief that flat screens would play a central role in future consumer electronics products that would work through large visual user interfaces and displays. They saw this area of technology as a future *opportunity arena* where their core competence could be used in countless imaginative ways (Prahalad & Hamel, 1998). Efforts were put into creating building blocks that could be put together in a myriad of different configurations depending on what the future brings with it, but still staying true to a specific vision of the future of the industry. Not investing in just anything, but only into resources and capabilities that would make possible core competencies in ground breaking future technologies – in flat screens. Competencies thus give resources and capabilities a function and bring them to life.

Another important aspect of the competence based view is that a competence is judged from the clients' perspective. This means that a core competence is only a true competence if it is valuable for the client. It also means that the biggest responsibility of top management in a firm is to try to anticipate or even create future customer demands and needs. In this sense, leading a company from a competence based view calls for a top down approach to strategy formulation in the following fashion:



Picture 4. Top-down approach to competence-based management

So, in the competence based view the core competence is at the heart of strategic management whereas in the resource based view this position was held by resources and capabilities. For this paper though, the most important thing about the core competence view is the **linkage between customer benefits and the core competences**. The customer decides what is and what isn't a core competence. Equally important is the idea that **competences are made up of activities** and that activities in turn are made up of resources and capabilities.

Before moving on, other important things to recite from everything said thus far are:

- Companies can begin to prepare for an uncertain future by concentrating on building resources and capabilities because they are the building blocks for value creating activities and core competences
- A step into a new business arena or industry calls for a new set of competitive advantages and competences, which in turn call for new combinations of resources and capabilities
- The internal perspective of a business organisation was born partly because external analysis methods provided an incomplete or false picture of why some companies do better than others in times of change

2.4 Other important concepts and topics

2.4.1 Dominant logic

Prahalad & Bettis define the concept of dominant logic as follows:

"A dominant general management logic is defined as the way managers conceptualize the business and make critical resource allocation decisions – be it in technologies, product development, distribution, advertising, or in human resource management. " (Prahalad & Bettis, 1995).

Dominant logic is thus a culture, a mindset and way things are done in an organisation. Like a human personality, it also works as a selective data processing mechanism that interprets information in light of previous experiences and other characteristics of the individual. This can unfortunately often lead to the unhappy consequences of hearing what one wants to hear and seeing what one wants to see. Nevertheless, it's an aspect of an organisation that finds its roots probably all the way from the personality and career of the founder of the company and it tints everything the firm does.

In this instance though, the concept of dominant logic is useful in its capacity to explain the current portfolio of resources, activities and competences in the company. It does so through the realisation that doing things in a company in a certain way means that the company always tries to create customer benefit in a certain way. This in turn means that certain kinds of resources get accumulated into the company like sediment at the bottom of a lake.

In later parts of this paper, the idea of 'business logic' will be used as an umbrella name for a business idea that requires a specific set of resources, activities and competences. Each logic will in turn be given a name that best describes its 'personality'. In this way, the concept of business logic will be used here the same way Keijo Räsänen uses the idea of "ansaintatapa" which translates to "earnings mode" (Räsänen, 1994). Every business is unique in its way of creating earnings, and every unique way requires a unique set of resources. Thus every business is a business logic on its own which can be given its own unique name.

2.4.2 Distributorship and brand management

Distributorship and brand management is defined here as a business whereby a firm acts as the sole agent and representative of a principal company within a tightly defined territory. The distributor firm thus takes on the responsibilities of the following functions within its territory; warehousing and distribution of the physical merchandise, sales and marketing, advertising, order fulfilment and order relaying back to the principal agent, after-sales service, establishing and nourishing relevant contacts to sales channels and PR. One of the distributors' important tasks is also to bring the principal company's international image and brand building efforts down to the country level.

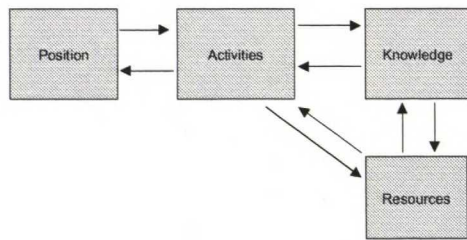
3.0 The framework for analysing moves into new businesses

The problem with the internal perspectives to the firm is that although their basic concepts are somewhat in place, they are hard to put into practice. How does one go about actually using these concepts on a real situation? Consequently, this is what the "framework for analysing moves into new businesses" is going to be for. It is to provide a tool to help chop into chewable bits something that is too big to swallow in one go.

3.1 Foundations for the framework

3.1.1 The basic relationship between internal components and the external world

The basic structure for the framework comes from a very simple model illustrating the relationship between the position of a company and most important internal assets. Enright calls his model PARK, and it consists of four parts; a company's **p**osition, its **a**ctivities, its **r**esources and its **k**nowledge (Enright, *BUSI0009A.B.C BUSINESS POLICY*). The model is depicted below.



Picture 5. PARK-model (by Michael J. Enright)

Position

The *position* refers to the company's revenue creating posture compared to other players in the same market. In other words, is a company able to squeeze out a bigger or smaller profit with its chosen strategy compared to others? The strategies here would be the generic strategies of either differentiation or then cost leadership the way Porter has explained them.

Activities

The *position* is attained by performing a set of *activities*. These activities include logistics, warehousing, marketing, sales, after-sales etc. There is also a two way connection between the *position* and the *activities*. This means that the profit creating position dictates what and how activities must be performed in order to reach position x and likewise the activities dictate what the de facto position is.

This part of the framework follows very much Porters value chain model in that also Porter makes a direct link between the activities/functions and profitability. He stated that sustained competitive advantage finds its source in the value creating functions (depicted as the value chain) that a company does and the advantages result in large than average profitability. A difference comes however in the absence of the next two components in Porters model. (Porter, 1998)

Knowledge

This refers to all the tacit and non-tacit information, experience and collective knowledge embedded in the organisation. It has a two-way connection with both the *activities* and with the *resources* in that the knowledge in the company has a profound effect on how well and efficiently the *activities* are performed and how *resources* are utilised and allocated for the benefit of the *activities*.

Resources

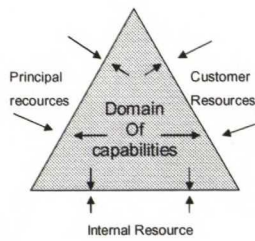
These are all the tangible and concrete assets that the organisation can allocate into the performing of activities. They would include production plants, transportation vehicles, buildings and equipment etc.

In many senses the PARK-model follows the ideas of the resource based view and the competence based view, although Enright probably did not intentionally mean it that way. The indirect connection between resources, knowledge and the position of the company is where the connection with the mentioned views lies. The big difference is however, that according to the resource based view a resource is a competitive advantage where as in Enright's model resources are merely inputs for activities. In the PARK-model resources are only cogs in a wheel and not the ultimate source of customer benefit. In light of this it is useful to make a distinction between strategic resources which are direct sources of competitive advantage and resources which are merely necessities for the functioning of the organisation. This is why in the to-be-constructed framework competitive advantages will be separated from resources.

What shall be used of the PARK model is its "flow" between its parts leading to a *position*. The *position* in the way it is used in this model will however be changed to something more true to the competence-based view. What remains still to be determined is the nature of the resources, and this is where we call upon a framework devised by Raimo Inkiläinen.

3.1.2 The definition of resources

The framework for analysing moves into new business draws a lot of its influence from the resource based view. It thus follows that the definition of resources is essential and that the method for identifying and naming them is well developed. For this purpose a model by Inkiläinen is most suitable. Inkiläinen's model defines the area of competence of a technical trader which is based on its principal resources, customer resources and internal resources, and the skills embedded in them (Inkiläinen, 1994). The graphic presentation of the model is below.



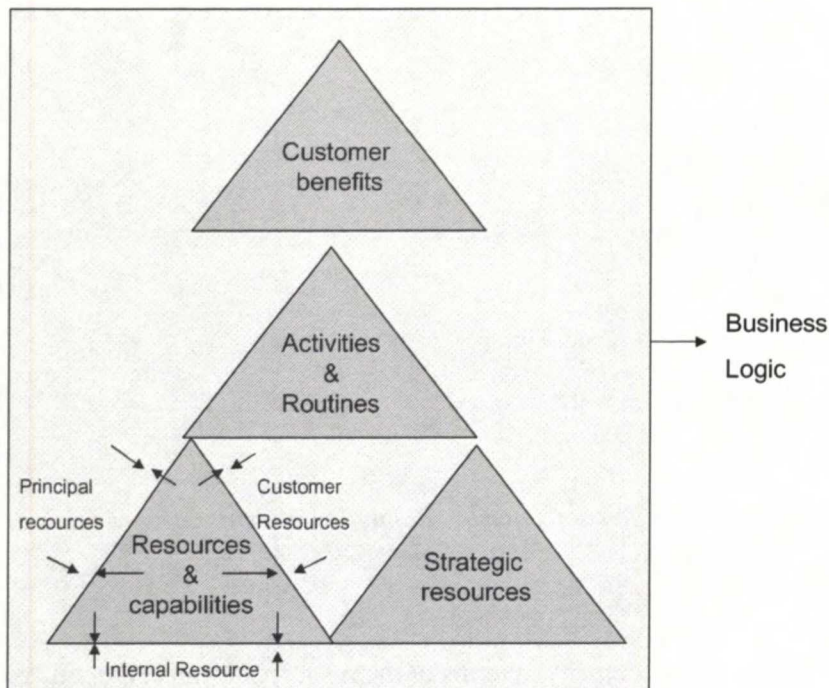
Domain of capabilities of a technical trader. By Raimo Inkiläinen

Picture 6. Domain of capabilities of a technical trader (by Raimo Inkiläinen)

The model explains the capabilities of a company in terms of the resources it can call upon. What is special about this model is that it employs a very much larger view on resources than what one normally sees. The size of the domain of capabilities is dependent not only on internal resources but also principal resources (products and support services) and customer resources (customer base and customer contacts). The model was built in Inkiläinen's doctoral dissertation for the purpose of explaining the business of a technical trader, and is thus quite industry specific, but it serves well the purposes of this paper since the case study is on a trading company that has to call upon resources from its principal. Inkiläinen's model will thus serve as the "resources" component in the coming framework.

3.2 Putting the pieces together

So, when taking the basic structure and idea of the PARK-model and replacing most of its components with others more true to the competence-based view, we arrive to a model looking something like below:



Picture 7. Framework for analysing moves into new businesses

The framework depicts the components of a single operational business entity - the flesh and bones of a *business logic*. It is a holistic system with each of its parts functioning together like in an engine. The triangles are pointing upwards to signify that the components build on each other or alternatively together with another comprise a third. This *entity* operates according to a dominant logic which determines the way the parts function together. Most importantly though the system exists to serve a specific business purpose, a business idea, which culminates in the *customer benefits* that the entire system is geared towards producing. So, if the idea and purpose changes then the *customer benefits* must change. Consequently, the entire system must change.

Although Inkiläinen's model has been used almost unaltered, the PARK-model has gone through a severe face lift. The biggest and most significant change is that the *position* component has been discarded and replaced with *customer benefits*. We shall open up and explain each of the components of the new framework beginning from *customer benefits*.

Customer benefits

This component of the framework represents the interface between the company and its clients. It defines the purpose of the company or its unique selling proposition as some might call it. It is the set of concrete (though not necessarily realised) benefits that the client gets from using the services or products of the company. It answers the question “why do our clients buy from us”.

Although saying that customer benefits play a central role in business strategy sounds like a no-brainer, this is not however the case. This is because it is very hard to say exactly what those benefits really are and there is often a gap between what benefits the management of the organisation thinks it is creating and what the customer feels it is getting. In fact, an entire body of research dealing with the gap concept exists, and it is intended to assist in better understanding inter-organisational business relationships (Leminen, 1999). However, the gap concept and the conducted research to study it are mainly concentrated on buyer-seller relationships and on identifying various types of perceived differences in experiences between involved parties in a given case situation such as a project. In this sense, the linkage between gap research and this paper is in the realisation that because customer benefits are the starting point in applying the framework, the end result can be somewhat distorted from reality because of the gap in perceived benefits between the company and its clients.

Another important aspect of the *customer benefits* component is that there are only a few universal benefits that are the same in all industries. Mostly, they vary between industries and across market segments and in each industry clients set their own unique demands on their suppliers. The important implication of this is that a company must think if the customer benefits they are creating in one field of their business are valid in another market or industry they are thinking of entering.

Activities and routines

Value, in the form of customer benefit, is created through doing something concrete. A company performs a set of activities that are geared towards producing the benefits for its clients that it believes will keep them coming back for more. This component of the framework is the “machinery” of the organisation that churns out the product.

The word *routine* is also added, since there is a distinction between activities which are done day after day year after year, and activities which are performed only occasionally. The former go by

the name of *routines* since they are performed so often that they are almost automatic. *Routines* are the backbone of operations and form the foundations for other more advanced *activities*. An example of a routine would be for instance a chain of procedures in order processing; first an order confirmation is sent to the client, then a proforma invoice is sent, after which instructions and a commercial order is sent to the factory etc. This chain of procedures would be repeated with each order time and time again with clockwork precision (one hopes).

An *activity* on the other hand refers to something which is still performed often in an organisation, but not as often or continuously as a *routine*. For instance designing an advertising campaign is an activity, but it can not be classified as a routine which always happens the same way – not even when talking about an advertising agency.

Resources and capabilities

But no matter how much an organisation would want to perform certain activities, it can only do so if it possesses the right *resources* and *capabilities* for the task. They are the building blocks from which activities, and ultimately customer benefits, are made of.

The word *resource* refers more to the physical and tangible things found in an organisation. These would include buildings, production machinery, computers and computer software, staff and personnel, vehicles, etc., etc. These things could be thought of as being necessities for the functioning of the company. For instance, very few companies could operate without an office. But it is important to realise that such a thing as an office is really a resource, because from a start-up company's point of view, acquiring an office can be a serious problem and can take up a large chunk of the start-up budget. Although the emphasis is on tangible assets, resources do include things such as brands and patents. They do however belong more into another component of the framework.

Capabilities on the other hand refer to intangible things such as knowledge of how to do a certain thing or task. In other words, it refers to the tacit knowledge embedded in the organisation that inevitably affects the way things are done and the level of professional skill to which tasks get completed.

As said before, the framework employs an extended view on resources compared to what normally is seen. Usually resources are defined as follows: "*firm resources include all assets, capabilities,*

organisational processes, firm attributes, information, knowledge, etc. controlled by the firm that enable the firm to conceive and implement strategies... " (Daft, 1983). Thus resources are seen as purely internal and fully controlled by the firm. In the framework however, certain external resources are included.

1. *Principal resources*; refers to the support services, help and materials that the principal gives to the distributor or sales agent for the purpose of taking care of his territory. Here we see that this external resource is somewhat specific to the business of being a distributor or sales agent of another much larger principal company. Examples of this kind of a resource would include promotional material like brochures, ready made videos for TV promotions etc. Most importantly though, the product itself and its marketability will also be thought of here as a principal resource. This means that a product that is highly desirable due to differentiation and is well positioned against competing products is considered a valuable principal resource because it is designed and manufactured by the principal.
2. *Customer resources*; These refer to the information and other internal material that the customer makes available for the company for the purpose of deepening the cooperation of the two parties. For instance, if a customer has an automated ordering system which can be aligned with that of the company's, then this could be considered a customer resource.

It should be pointed out here that although it is by coincidence that the external resources Inkiläinen has included into his model of *domain of capabilities of a technical trader* also suite the purposes of this paper, it does not mean the same extended view of resources could not be used in other circumstances.

Strategic resources

This component refers to resources and capabilities that create customer benefits in ways others can not copy or reproduce. They are thus strategic resources. A great number of researchers in the resource based view identify almost an identical set of criterion for identifying resources that could be considered strategic. They suggest that resources should be (a) valuable in the sense that they exploit opportunities and/or neutralise threats in a firm's environment, (b) are rare among a firm's current and potential competition, (c) must be imperfectly imitable and (d) there does not exist strategically equivalent substitutes for these resources (Barney,1991).

An important aspect of strategic resources is that they can create customer benefits as themselves, for instance the way brands can, and thus do not necessarily form a part of the *activities* component. The *Strategic resources*-part is thus an independent component in the framework that has the capacity to create unique customer benefits either directly or then indirectly through the *activities and routines* of the firm the same way *resources and capabilities* do. Referring to Leminen's work into perceived gaps, what is important is how the client perceives the benefit and that there is no incoherence between clients' perception and that of the firms (Leminen, 1999). Otherwise what is perceived as strategic is in reality not strategic at all.

3.3 Using the framework

The framework should be used the same way as the famous SWOT check-list is used. First one takes one component, let's say the O (opportunities), and starts listing all the business opportunities one sees in the horizon. In this case, one would start from the customer benefits. Here the task would be to try to identify all the customer benefits that the company needs to provide its clients in order to guarantee some level of success. Most importantly, the list must be for the specific industry or market segment under analysis, and not just for the main business of the firm.

When the list is complete it's time to pick the next component. Here it would mean listing all the activities the company must do, and what it already does, in order to bring about the customer benefits it had earlier identified as critical for success. After going through each component at a time, the end result should be a set of lists with each component supporting the other in the way that together they create a coherent system – a business logic.

As stated right in the beginning of this paper, the framework is mainly designed to be used in analysing situations where a company is faced with a possibility of going into a new business. What is critical here is that the new business functions with a different **logic** and the customers of the new business require different kinds of benefits from what the company is accustomed to delivering. To conduct an analysis with the framework then requires a thorough analysis of two business logics and their compatibility.

Armed with this new tool, it is time to end the theoretical part of this paper and introduce the guinea pig. The next chapters then are about putting the framework on a test run and to trying to determine its ability to explain some of the critical events in a real life case.

Part II

4. The Case study

4.1 Introduction

The purpose of the case study is to fulfil the second aim of this paper. The research problem is to see how useful the constructed framework is. What will be done is a micro-level strategic analysis of a change situation in a medium sized trading company. The analysis will be very detailed because otherwise it would not yield the kind of insights needed in determining the usefulness of the framework. The whole idea of the framework is to provide a tool with which a change situation can be “gutted” and then analysed. It would thus defeat the idea of this thesis to make the case study shallow. Moreover, using the framework correctly calls for a thorough analysis of business logics. These on the other hand are unique and complicated, and understanding them requires looking at the history of the company as well as its current situation.

The business idea and logic of the case company had remained somewhat unchanged for a long time. However, in 2002 it was presented with an opportunity to try something new. It was presented with the prospect of operating as the distributor for a well known sporting goods brand. This new project posed a shift away from the company’s basic line of business. It presented change. The question then became did the company have the correct resources, strategic resources, activities and customer benefits in place to handle the project, or was it too far from the basic business of the company?

The case is based on my own personal accounts and on my colleagues who were responsible for handling the project. All participants are kept anonymous. It took place in the years of 2002 and

2003 and most of the comments and statements to be used have been written after the fact and are based on memory. One interview of a professional clothing buyer is also used for the purpose of bringing in an objective customer point of view. First however, the company and the brand are introduced.

4.2 The case company

For convenience and for the purpose of anonymity, the business organisation involved shall from now on be called DIRECT PURCHASING PARTNERS Ltd or DPP for short.

4.2.1 Beginnings

Direct Purchasing Partners Ltd was established in 1969 in London England. Its first business was to sell office supplies, like carbon paper, and most of the selling was done door-to-door by the owner of the company himself together with a few other commission sales agents. Operations soon spread to include salesmen in Denmark, Norway and Sweden as well as Great Britain, and later sales trips were being made to Finland also. Consequently, the owner of the DPP later moved to Finland for personal reasons and the centre of gravity gradually shifted away from England to Finland. The business idea in the two countries also began to drift later apart. It thus follows, that the emphasis is almost purely on the Finland operations in this thesis and the English part of the company only factors in through a few resources that are based there.

4.2.2 A change in business idea

Somewhere along the line the business idea changed drastically. The main business was no longer to sell office supplies door-to-door but to facilitate direct purchases from factories anywhere in the world. DPP was thus to operate as a purchasing consultant for companies who wanted to buy directly from foreign factories (instead of importers and trading companies) but were not willing or able to take the risks involved.

The whole idea was that the client got the price benefit of making a direct purchase with a factory, for instance to a factory somewhere in China, but was freed from the risks and problems of dealing

directly with the factory. In addition, the client could do everything with a person based in his or her own country and had a local person to scream at and take responsibility if something went wrong.

The company began then to make the purchase on behalf of the client and take care of all necessary procedures involved in bringing the products into the country but keeping the client as the de facto importer. DDP would also take responsibility of all quality problems that might have occurred with the goods after they were imported and took the responsibility of having the goods pass all safety certifications like CE and FI, making packaging designs, manuals and other necessary things.

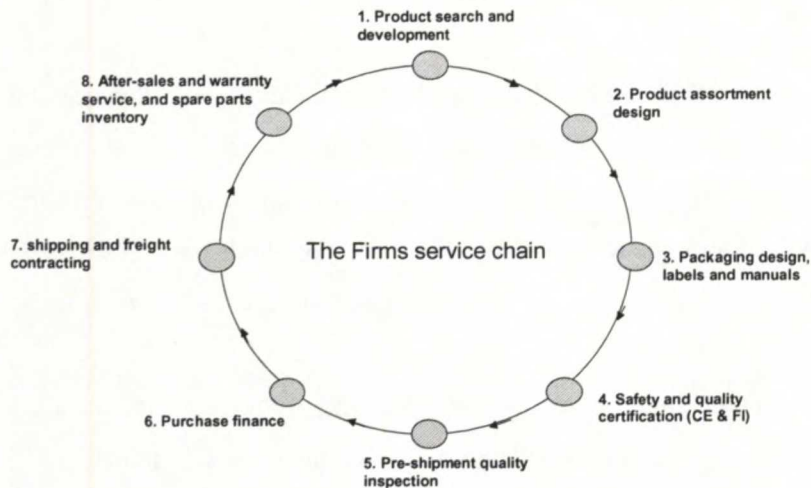
A very important aspect of the service that Direct Purchasing Partners Ltd provided for its clients was that it financed the purchase from beginning to end. The firm put up the required finance to purchase, ship and import the products independently from the client. The client was thus free from financial burdens up until payment time.

4.2.3 Later years and present day

DPPs basic business in Finland has stayed unchanged until this day. What has changed is that business has grown and Direct Purchasing Partners can count almost all large Finnish wholesalers and retail groups as its clients. Resources and activities within the company have grown and multiplied also, and the original number of 3 employees has grown to about 20.

Other developments have occurred though. In year 2000 the basic business received an auxiliary business to its side in the form of a distributorship of a famous fitness equipment brand. It was the first true step towards a separate and self contained business that operates on a different logic compared to the basic business. On top of this, in 2003 DPP acquired another company as its subsidiary to be merged with the firms own operations in the same field. This acquisition has added another 10 people and large facilities to DPPs resources. In other words, DPP is now two firms in Finland.

It is profoundly important for the later part of this study to specify exactly what is meant by the “basic business” of DPP in more detail and the picture below is intended to start this discussion.



Picture 8. Direct Purchasing Partners service chain

The whole service chain is a process that is designed to turn an item into a safe, certified and packed consumer product suitable for the Finnish market, and then bring it into the country. We will briefly overview each phase in the cycle.

1. *Product search and development*; new products need to be found every season for almost every product category. As well as replacing old products with new models, it is important to introduce totally new items and ideas for the clients. Employees of DPP Ltd thus travel around the world to shows and exhibitions and visit factories to find the latest items and ideas. Some products are either fully or then partially designed by Directed Purchasing Partners in which case the search is for a suitable manufacturer instead of a ready product. Very often the clients give the employees of DPP lists of specific products that they want to find and new product ideas are developed together with the client.

2. *Product assortment design*; sometimes DPP designs entire product assortments for its clients. For instance, the company might put together the entire range of power tools that the client will have in its stores the next season.

3. *Packaging design, labels and manuals*; after a product has been chosen, it is put through the process of making it into a suitable and marketable consumer item. This begins by designing packaging for the product, making logos and labels, and making manuals for it that meet Finnish standards. If it is an entire product assortment that is under work, the designing phase will include designing a unified “look” for the product group, and very often the creation and registration of a totally new brand name.

4. *Safety and quality certification*; perhaps the most important part about introducing a product to the Finnish market (or any other market for that matter) is making sure that the product is safe and meets all necessary safety and quality standards. This is done by inspecting CE reports and having the products tested for FI approval. Although it is product specific what certifications are needed, the idea is that Direct Purchasing Partners makes sure these certifications are obtained before the product is imported.

5. *Pre-shipment quality inspection*; before the goods are put into containers and shipped Direct Purchasing Partners makes a pre-shipment quality inspection. For this purpose DPP has its own inspection offices in the Far-East (since most shipment nowadays comes from China) with their own engineers as inspectors.

6. *Purchase finance*; DPP takes care of the financing for the purchase from beginning to end. The financing is done almost purely out of the London office and through international banks.

7. *Shipping and freight contracting*; Direct Purchasing Partners Ltd takes responsibility of booking a container and organising shipping and freight for each of the shipments. Products are thus sold on CIF bases to the clients. Also this function is done at the London office.

8. *After sales and warranty service, and spare parts inventory*; DPP keeps an inventory of spare parts for all its items for the period of time required by law. It also takes care of the service and/or re-imbursement of returned products.

This sequence of activities is repeated for every new product that Direct Purchasing Partners supplies to its clients, and it has been doing so for almost 3 decades now. What is important to note is that the firm does not have a warehouse of any sort in Finland and almost no marketing and advertising is done for the products that it sells. These functions are almost purely down to the

client who is the de facto importer of the products. As a minimum requirement, all items are shipped by the container loads and it takes about 4-8 months to process a product from beginning to end. Important to note also is that DPP concentrates only on consumer durables like home electronics and kitchen appliances in the mid- to low- price category. Items such as clothing, foods stuffs and chemicals are not in the company's line of business. Luxury items are equally excluded from the list.

The name *direct mass purchasing consultancy and facilitation* could then be given to the business logic of DPPs basic business. According to this business logic, the company operates on an opportunistic and short term logic towards the products it sells but very patiently and with extremely long business relationships with regards to its clients. In fact, the products themselves do not really matter and most of the investments in the company are put towards building client relationships and towards making the service chain more efficient. This has lead to a very sales oriented culture in the company where each sales and marketing person is mostly accustomed to working alone or together with his or her clients, and very few projects get worked on as a team.

More importantly though, the sales oriented culture and the dominant business logic have profoundly affected the resources and skills that have accumulated into the organisation. It comes as no surprise then that the resources and skills in the organisation are geared towards the activities of personal selling and the 8 activities that form the service chain listed above. These skills and the activities together form the core competence of the company which it is using to create customer benefits for its clients. This idea shall be explored more thoroughly and its implications analysed in later chapters, but next the brand company is introduced.

4.3 The principal company

Also here the name of the principal company and the brand name of their product line will be given an alias. Hence, the principal company will be referred to as the Italian Sporting Goods Corporation or ISG corp.

ISG was an Italian sports apparel manufacturer with a long history and heritage. Its product line included sportswear, outerwear, shoes, sports bags, hats, gloves, swimwear and accessories. The firm had its main offices in Italy with the main functions of design and administration based there

and it had representation in almost all major European countries. At the time, it was also somewhat prominent in the United States also. Adding to its prominence was its many sponsorship contracts with famous athletes all around the world, and ISG's name could be seen in countless sports events and on athletes clothing on TV.

ISG corp. made a new selection twice yearly with one collection for Winter/Autumn and one for Spring/Summer. It also produced lines of special collections built around fashionable themes like heritage motor sports or 60s tennis style. These special lines would be in addition to the basic collections and were mainly produced for image and brand building purposes. The biggest competitors to ISG were companies like Adidas, Nike, Reebok and Peak Performance.

ISG's style represented a very traditional Italian sense of fashion where emphasis was put on styling more than functionality. The main sports that the clothing were intended for were tennis and track & field in the summer collection and alpine skiing in the winter collection. Street fashion was also very prominent in the collections (mainly in the Spring/Summer collection). ISG was positioned clearly into the medium to high price category.

The Italian Sporting Goods Corporation did not produce the clothing itself and most of the goods were produced in Asian countries with the exception of a few of the special lines being made in Italy. The prerequisite for a design to go into production was that a certain amount of pre-orders had been placed on it by the various country representatives in Europe. For instance if a certain T-shirt design had received orders from around Europe amounting to 10 000 pieces, it would begin production. In addition, even though a line was in production, each separate order for it had to exceed a minimum order quantity for it to get shipped to the client. For instance every order for the T-shirt would have to exceed 500pcs.

The minimum order quantities were rather high, and smaller countries had to try to make joint orders to get the items they wanted. This happened quite often since the product selection of ISG was very wide and preferences varied from country to country. Small countries with specific tastes often found themselves not getting the items they wanted.

There was a hierarchy amongst the various country representatives with the different countries being divided into two groups. The division was based on the size of the markets and their relative importance to ISG Corp. In practice it meant that country representatives belonging to the first

group received catalogues, brochures and samples about 1-2 months before the others and thus also got to place orders much before the others. A result of this was that the cycle in which ISG sent brochures and samples to its country representatives did not coincide with the buying cycles of the customers in the various countries. It often resulted that customers were having their buying days when the country representative had not even received samples yet.

ISG Corp. had been represented and distributed in Finland for a long time before, but there had not been representation for their brand in this territory for a few years before DPP was granted the contract. The previous distributorship had ended sometime in the mid- 90s under stormy circumstances and some people had rather bad memories of it. Direct Purchasing Partners Ltd was not aware of this questionable past however when it signed a distribution agreement with ISG Corp. in 2002 and begun the work of reintroducing their major brand to the Finnish market.

5. Old business logic vs. new

From the introductions of DPP and of ISG above, it is clear that the two operated with quite different logics and in very different worlds. Direct Purchasing Partners main business was *direct mass purchasing consultancy and facilitation*. The business logic of acting as a country representative of an international sports apparel brand could on the other hand be called *distributorship and brand management*.

The way the framework should be used to analyse a move into a new business is by comparing the organisations current business and the business it wants to enter. The objective is to find out how different they are in terms of required customer benefits, activities, resources and strategic resources and to find out if the leap is too big. Thus, the challenge is to determine what needs to be and what already is.

In this instance, it means a comparison between the old *purchase facilitator* and new *distributor* business logics needs to be made. Both of the businesses logics will be taken apart using the framework, and the components will be put next to each other to find out what is missing and what is already in place. From this we will get a set of **hypotheses** about how well the two businesses could or could not mix.

Then what needs to be done is to determine if the hypotheses were correct or not. This is done by going through events from the real life case to see if the comparison had brought out those same things that came up in reality. In other words, an initial analysis will be made, and then real life events will be used to see if the analysis was correct or not.

The study thus proceeds in the following fashion:

1. Analysis of the *distributorship and brand management* business logic
2. Analysis of the *direct mass purchasing consultancy and facilitation* business logic
3. Comparison of the two business logics and making hypotheses
4. Testing the hypotheses

5.1 The business logic of *distributorship and brand management*

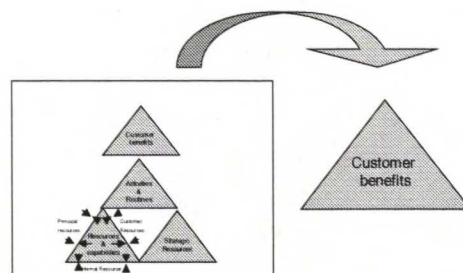
All companies, even those operating in the same industry, are very different from each other. So much so, that the business of each and every organisation is a business logic and business model in itself. It is thus impossible to analyse a business logic which does not exist yet. What can be done however, is an industry level analysis.

This would be done by looking at other companies operating in the same industry the organisation wants to enter. What kind of activities do they have? What resources do they have etc? More importantly, customer benefits can be found out by talking to potential customers. Consequently, information for this chapter has been derived from three sources;

1. An interview with a professional clothing buyer for a large Finnish department store chain.
2. My own personal experience in working in the industry and through meetings with people from other Finnish sporting goods companies.

5.1.1 Determining customer benefits

The first step is to determine what customer benefits a distributor needs to create for its clients. The customers in



this case are not the consumers but the buyers of the department stores and sports shops who decide what products are put on the shop shelves and which products never see daylight.

The findings from the earlier mentioned interview are especially helpful in determining required customer benefits. The interview was conducted 4th of September 2003, and the interviewee was the then head of purchasing for ladies clothing in one of Finland's biggest department store chains.

The interview was half-structured in that the interviewee was asked relatively loose questions to which answers were given in a non-structured way. It took approximately 1 1/2 hours and the answers were recorded by the interviewer writing as the interviewee spoke. Only one such interview was conducted because it's only purpose was to form a very limited part of this thesis. It would have thus been unnecessary and too time consuming to conduct multiple interviews in a similar fashion for the purpose of finding out about customer benefits. In addition, a conscious choice was made not to choose a buyer for sports clothing as the interviewee because this would have caused a conflict of interest due to my own personal involvement in sports clothing. Instead, a person was chosen from a field of business that could be considered almost identical to what was actually being studied.

From the 6 open questions that the interviewee was asked, 2 are of special interest here. The main points from the answers are listed as bullet points below:

1. Miten arvioit merkkiedustajaa ja mitä palveluja odotat häneltä (Erityinen huomio palveluihin)? *Translation: how do you judge a brand representative and what services do you expect from him (special interest towards services)?* When asked this question, some of the answers were:
 - Someone who can provide partnership (...joku joka voi tarjota partnershipiä)
 - Good and knowledgeable salesperson who knows his/her brand and its competitors (...täytyy olla hyvä myyjä...asiantunteva, tuntee merkkinsä ja kilpailijansa)
 - Salesperson must know what can be sold in Finland. Must know the latest trends, prices, colours and must have a good idea of world trends. (...tietää mitä voi myydä Suomessa. Tuntee värejä, hintoja ja trendejä. Hänen täytyy tuntea myös maailman trendit.)

Clearly the answers above were descriptive of the sales person himself who comes to meet with the buyer. However, when the question was steered more towards to characteristics of the organisation behind the salesperson, some of the answers were:

- Can deliver what is promised when it's promised. The distributor must also take care of returns. (...tilaukset pitää hoitua kunnolla. Tilaukset käydään läpi tarkkaan ja palautukset pitää hoitaa.)
- Takes care of campaigns and sales promotions. (...hoitaa kampanjat ja alennuspäivät. Pitää olla ehdotuksia valmiina sellaisille tuotteille, joita voidaan laittaa tarjouksiin ja muihin kamppiksiin.)
- Is able to provide a "package" for the customer and has the ability to make suggestions for a selection which is just right for the clients needs. (...tarjoaa toimivaa "pakettia", omaa taidon tehdä ehdotuksia ja tietää mikä toimii meillä.)
- Provides EAN codes, prices, order numbers and packing details on cartons. Makes sure the throughput time in the clients warehouse is maximum 3 days and takes into account the needs of the different stores in the chain when packing the goods.
- Warehousing and extra stock for mid-season deliveries are not very important.

When asked to explain more about the kind of marketing help that is required, some of the findings were:

- Marketing money as well as special discounts of promotion items are needed
 - Cash rebates are required (...kassa-alennuksia kaivataan.)
 - Every supplier is required to provide merchandise for special promotions
 - Offers for the company's loyal customers are required (...kanta-asiakas tarjouksiin tarvitaan tuotteita.)
2. Miten arvioit vaatemerkin jota olet katsomassa? Mitkä asiat vaikuttavat siihen, otatko sen tulevan kauden valikoimaan vai et? *Translation: how do you judge the brand you are seeing? What factors are important when you decide if you are going to include it into next season selection or not?* Some of the answers to this question were:
- The brand has to have something others in Finland do not have. (...pitää olla jotain sellaista, jota ei ole Suomessa muilla.)

- A new brands sales has to replace the sales of another. (*...uuden brändin täytyy korvata toisen brändin myynti. Tässä lasketaan siis brändin vaihtoehtoiskustannusta*)
- Has to be something that is hot internationally. (*...sen täytyy tuntua olevan jotenkin "kova juttu" ulkomailla*).
- The brand needs to have an ongoing and attractive "umbrella" advertising campaign to promote sales, but "flash" advertising is not interesting. (*...pitää olla "kattomainontaa", mutta ei sellaista Flash mainontaa.*)

Also, when asked to describe the basic Finnish distributor company, the answer was that there really is no such thing, but that mostly they are local offices of very large international companies. More over, small trading companies with many brands under their control have all but disappeared according to the interviewee. This is apparently due to the fact that such "brand houses" are inefficient and because the international principals do not like such companies and hence no longer grant them distribution agreements.

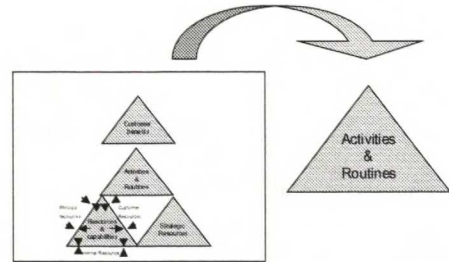
The absolute main thing that a buyer for sports clothes and apparel needs from a supplier is a brand that sells and is in fashion. Simply, what is wanted is merchandise that sells more than its alternatives, has a quick throughput and low probability of still sitting on the shelves after the season. It must also provide enough return per shelf space to warrant it being chosen over other competing brands. Required services from the supplier are actually quite limited in terms of logistics etc., but high professional skill from the salespersons behalf is very much required.

Thus some of the most important customer benefits a distributor of a brand can provide its clients would include:

- More profit than from alternative brands in the form of higher retailer margin and lowered other costs
- Someone else taking the responsibility of creating demand
- Offering valuable help and advice in designing the seasons' selection and in making sure the chosen products are desirable to the consumer.
- Provision of information about trends and developments in the industry
- Having someone else take care of basic logistical functions.
- Provision of help in marketing and sales promotion

5.1.2 Determining activities and routines

Now that some to the required customer benefits have been determined, it is possible to begin to look at the activities a distributor would need to perform in order to create the customer benefits. We shall look at each customer benefit and the activities behind it in turn.



More profit

The creation of profit for the customer comes partly from retailer margin and partly from the distributors' efforts to lower the retailer's costs.

- **Retailer margin:** the most important source of profit to the retailer is of course the margin between selling prices compared to buying costs of the goods. Where brands are involved, the level of the retail selling price is strongly linked to the merchandises attractiveness to the consumer. This in turn is directly linked to the strength of the brand. Thus, the attractiveness of the brand can be thought of as being a strategic resource and a *competitive advantage* and its effect on margin comes through the consumers' willingness to pay more for that brand name. Thus retail prices are set by the markets and the few activities that an individual distributor company can do has to do with creating more demand.
- **The lowering of the customers' costs** on the other hand would result from a number of activities such as providing marketing help, provision of logistical services etc.

Someone else taking responsibility of creating demand

One of the most important roles for a distributor is to create and strengthen demand. For this purpose a distributor would need to mainly do attractive advertising and sales promotion targeted at the correct group of consumers. In addition to this, a distributor would need to 1. Establish direct communication with consumers, and 2. To build brand awareness and preference amongst consumers.

Offering valuable help and advice in designing a suitable selection

As it came out in the interview with the clothing buyer, retailers require professional help in designing and deciding upon a product selection. To provide this help a distributor would need to do at least the following activities:

- Displaying the goods in a well organised and attractive environment
- Having sales negotiations and regular meetings with clients
- Making the selections together with the clients

Providing information about trends and developments in the industry

To be able to provide the right kind of information and help to a retailer about the current events in the market, a distributor needs to have its hand on the market's pulse. For this end, a distributor must be active in:

- Following world trends and going to shows to find out what the fashions are
- Following developments in the industry very closely
- Meeting with competitors and getting to know the competitors' merchandise
- Getting to know the client company in detail and following its progress closely

Having someone else take care of basic logistical functions.

One of the most basic functions of a distributor is to act as the supply source for the retailer. Modern retailers require advanced services in order handling and in the labelling and shipping of goods from their suppliers. In fact, one of the most important characteristics of a good supplier is the efficient provision of logistical services. Some of these services would include:

- Order tracking (routine)
- Relaying orders back to the principal (routine)
- Order processing (routine)
- Having goods packed in the way the client requires them and creating packing assortments
- Taking care of returns and faulty products
- Including packing information, stickers, EAN codes etc., before delivering goods to the client (routine)

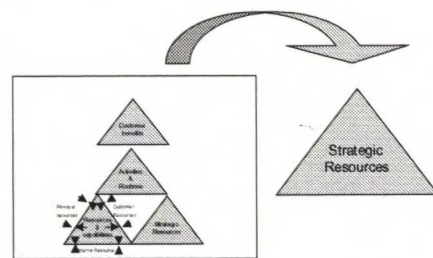
Provision of help in marketing and sales promotion

As mentioned in the interview, retailers require partnership from their suppliers. For a distributor of a brand this means that; it has to actively take part in its customers sales promotion days, provide special goods for promotions and special offers, and have its own salespeople in its clients stores with their salaries and expenses paid for by the distributor company. This practise is quite common in shop-in-shop solutions.

After having determined what the activities are that produce customer benefits, the next step is to look at competitive advantages and resources. This also marks a clear shift into more and more internal matters of the firm. We will first look at competitive advantages.

5.1.3 Determining strategic resources

The *strategic resources* component of the framework is in a way a “wildcard” in the whole equation. What is meant by this is that a company either has some or then doesn't. The lack of them does not however mean that the company can not operate and create customer benefits through its activities. The activities are what keep the company alive and define the organisation.



What is important to realise is that it can do so even though it doesn't possess any clear strategic resources. Instead, *strategic resources* are intended to denote such resources that create extraordinary advantage to the company – they are “an ace up the sleeve” in a sense. They are thus not an absolute necessity for the operation of the company.

In the *distributor and brand management* business, the most important strategic resources a distributor can have is the brand itself. More specifically, the level of desirability of the brand is the advantage. For instance, the world famous brand Adidas is almost guaranteed to sell well in Finland regardless of the company who actually manages it in the country. Thus, anyone with the rights to Adidas in Finland automatically has an extraordinary competitive advantage over other distributor

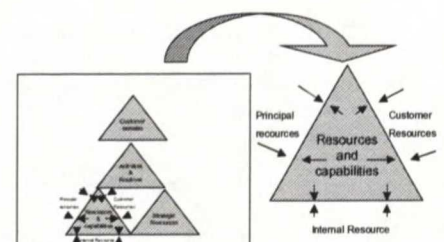
companies. The main customer benefit that the brand creates is demand (and more profit) and it does so through the activity of *building brand awareness and preference amongst consumers*.

Other strategic resources a distributor can have include:

- Superior contacts within the industry especially with clients. This strategic resource helps in almost every activity, but most important it is in creating the customer relationships and in having meetings and negotiations with the clients. For the distributor to be able to sit down with its clients to design a selection for the coming season, there must be a trusting and warm relationship between the two.
- Having warehousing and distribution facilities. Having these strategic resources provides the distributor with a possibility of offering still more customer benefits for its clients than what most companies in Finland require. For instance, most sporting goods retailers are happy to buy only through the pre-ordering system, but do admit that having the possibility of ordering small quantities from stock in mid-season is an attractive possibility which has a positive effect on their willingness to order. Also, selling small quantities from stock enlarges the client base the distributor is able to service in Finland. Only the biggest shop chains and department stores are able to reach the minimum quantities required in the pre-order system, so servicing all the small independent shops across the country requires warehousing and distribution by the distributor company. This possibility in turn provides the opportunity of building market share and brand awareness more effectively than if small deliveries were not possible.

5.1.4 Determining resources and capabilities

The last phase in using the framework is to determine the required resources and capabilities needed for the activities and processes. Although it would be good to list all the different resources and capabilities a company would need for all its activities, this is simply not possible. Thus the list of resources that follows is by no means exhaustive. The linking of resources



to activities is done in a similar fashion to how it was in the linking of activities to customer benefits but not as thoroughly.

Required resources and capabilities for the activity of creating demand

The resources and capabilities here mostly have to do with knowledge about brand management and advertising. Thus the distributor company needs:

- Funds that can be used into the performing of the activity
- Some physical promotion material: here principal resources are especially important since most distributor companies do not have the funds to create elaborate advertising campaigns and TV commercials. Most of the material comes from the principal, and the distributor uses its own funds to buy advertising space and time in its own territory.
- people with
 - Experience in dealing with the media and advertising agencies
 - Experience in creating advertising and brand building strategies
 - Experience in organising stands at exhibitions
 - Skills and capabilities in organising promotional events involving consumers, and creating dialog between the brand and the consumers

Resources and capabilities required in the activity of offering valuable help and advice in designing a suitable selection

Although it is very difficult to say exactly what resources and capabilities are needed for the mentioned activity, but certainly they would include; A suitable showroom where the goods can be nicely displayed and where the negotiations can be conducted, brochures, catalogues, samples and other sales material (Principal resource) and knowledge about the client company and its needs (client resource).

In addition to the resources and capabilities mentioned above, also the following are essential:

- capabilities in anticipating coming trends and fashions
 - Subscriptions to industry magazines, databases etc.
- People with enough negotiation skills and experience to be able to have constructive dialog with clients
- Help and advice from the principal (principal resource)

- Events where the company can meet with its clients. For instance big shows and exhibitions. Stands and booths at such events are usually organised by the principal. (Principal resource)

Providing information about trends and developments in the industry

The activities needed for providing information about trends and developments are going to shows, following world trends and competitors. The required resources for these activities would include; funds needed to send people to shows, time to spare for going to visit shows and exhibitions, people with enough prior knowledge and education about the industry that they can judge current events in a meaningful way. The list could potentially be endless, but at least the following are of importance;

- Knowledge about competing brands, their methods, resources, competitive advantages etc.
- The principal organising stands at major world shows where the distributors can learn more from experts and see competitors offerings (principal resource)
- The principal organising distributor meetings to discuss trends and future scenarios (principal resource)

Resources and capabilities needed in the creation of basic logistical services

As said before, one of the most important functions of a distributor is the reliable and efficient handling of orders and shipments. The list of resources and capabilities for this purpose is perhaps the most important in terms of having the basic potential to act as a distributor for a world brand. Below is a list of resources and capabilities that are a minimum for the job:

- An office building with all necessary office equipment
- People to carry out the basic ordering and shipment tracking processes
- Capabilities and knowledge about how to process orders and shipments in a way that all stickers, markings etc., are correctly done on cartons and individual items
- An efficient order placement IT-system from the principals side (principal resource)
- People and facilities for taking care of returns and faulty items
- Knowledge of exactly what the client requires and how goods should be packed, marked (Client resource)

Resources and capabilities needed in the activities for creating help in marketing and sales promotion

Finally, below is a list of resources and capabilities needed for the activity of providing help in marketing and sales promotion:

- People dedicated to the activities
- Funds
- Visiting professionals from the principal who can add substantially to the effectiveness of sales promotion activities (principal resource)
- Some basic physical materials such as clothing, banners, free gifts etc., to be used at sales promotion events

The table below is intended to put all the thus far developed elements together and to draw a clearer picture of the *distributorship and brand management* business logic:

Table 1. *Distributorship and brand management business logic*

Customer Benefit	Activities & Processes	Resources & Capabilities	Strategic Resources
Higher retailer margin	<ul style="list-style-type: none">○ Creation of demand○ Logistics services		Highly desirable brand
Creation of demand	<ul style="list-style-type: none">○ advertising and sales promotion○ direct communication with consumers○ Brand building	<ul style="list-style-type: none">○ Funds○ Marketing material○ People with the right kind of experience	<ul style="list-style-type: none">○ Highly desirable brand○ Warehousing
Help and advice in designing selection	<ul style="list-style-type: none">○ Attractive environment○ Conducting sales negotiations and regular meetings○ Making selections together with clients	<ul style="list-style-type: none">○ A showroom○ Marketing material○ Industry specific knowledge○ People with sales and negotiation skills○ Help from principal○ Events and happenings where products are displayed	<ul style="list-style-type: none">○ Good relations with industry players and especially clients

Information about trends and developments	<ul style="list-style-type: none"> ○ Following world trends ○ Following developments in the industry ○ Meeting competitors and knowing their products ○ Following developments of client company 	<ul style="list-style-type: none"> ○ Funds ○ Time ○ industry specific experience and knowledge ○ Knowledge about competitors ○ Events etc. to which clients can be invited to ○ Information and market research 	<ul style="list-style-type: none"> ○ Good contacts and relationships within the industry
Basic logistical functions	<ul style="list-style-type: none"> ○ Order tracking ○ Order relaying ○ Order processing ○ Packing, labelling, etc., according to clients needs ○ Taking care of returns and faulty items 	<ul style="list-style-type: none"> ○ A suitable office ○ People with skills ○ IT-system ○ Facilities and people to take care of returns ○ Knowledge about clients internal logistical systems and needs 	<ul style="list-style-type: none"> ○ A warehouse and distribution centre
Help in marketing and sales promotion	<ul style="list-style-type: none"> ○ Taking part in customers sales promotions ○ Providing goods for special offers and sales promotion events ○ Having salespeople at clients stores 	<ul style="list-style-type: none"> ○ People ○ Funds ○ Visiting professionals ○ Marketing materials 	

5.2 The business logic of direct mass purchasing consultancy and facilitation

The previous chapter illustrated how the framework should be used to brake down a business into its components. This exercise has now been done for the *distributorship and brand management* business, and now the same should be done for DPP's established business idea of *direct mass purchasing consultancy and facilitation*. This is not however necessary to do it such detail because DPP's business was already introduced quite extensively earlier in the paper. Customer benefits shall be studied in equal detail, but otherwise the process of listing and explaining everything one by one is skipped and instead a "grid" like to one above is produced.

An important thing to note is that the customer benefits, activities, resources and strategic resources identified in the "grid" are real and specific to DPP. This was not the case when analysing the

distributorship and brand management business where everything was “in general” and on an industry level. Everything mentioned in the next chapter are from reality and for a real business.

5.2.1 Determining customer benefits

All of DPP's services are designed to absorb risks and time consuming functions involved in purchasing away from its clients. The customer benefits are thus two fold. On one hand Direct Purchasing Partners Ltd offers a “keys in hand” solution in purchasing. On the other hand it offers its clients a kind of an insurance policy towards any problems that might occur later. To support this short description of DPP's service, a list of customer benefits are identified.

1. *Price benefit of making direct purchases with the factories*

One of the biggest motivations for a company to use the services of DPP is to get the price benefit of buying directly from a factory for instance in China. Normally companies buy from importers and conventional traders who hold large stock and thus demand higher prices for their products.

2. *The benefit of having DPP taking responsibility of assuring the quality of shipments*

The risk of course in buying direct from sometimes obscure places is that you don't get what you ordered. Direct Purchasing Partners thus takes on the responsibility of making sure what is shipped is what was ordered and that the goods are of perfect quality when they arrive.

3. *The benefit of shifting responsibility of solving problems and being liable in problem situations.*

If the goods for some reason arrive damaged or are pulled off the market after they have been sold, DPP takes responsibility for damages and costs of such events.

4. *Benefit of outsourcing after-sales service.*

In addition to keeping stock of spare parts for the products it has sold, DPP takes care of the servicing of returned faulty items.

5. *Benefit of outsourcing product search.*

Finding new and innovative products season after season to offer consumers is costly, time consuming and requires long experience in consumer products. Most companies do not have the time or resources to send all of their buyers to fairs and exhibitions across the globe and thus find it more beneficial to let someone else take on the responsibility. In addition to travelling around the world visiting factories and exhibitions finding new ideas, DPP creates new products and product assortments for its clients.

6. *The benefit of getting products delivered already correctly processed for further distribution and selling*

Once a new product is found, the next phase is to take all necessary steps to turn the product into something that is suitable for the Finnish market. This is often a long process that takes a lot of time and effort to get right. The process involves getting safety approvals, making packaging designs, translating manuals, organising after-sales service and sometimes even re-engineering the product according to instructions given by testing laboratories.

7. *Benefit of outsourcing the entire administrative side of the purchasing process*

The purchase process does not end at placing orders to factories. It involves booking containers and space on ocean vessels, organising the paperwork for letters of credit, organising insurance for the shipment, tracking the whereabouts of goods etc. In other words, there are a lot of paper work and follow-up procedures involved in international trade. Direct Purchasing Partners takes on responsibility for all of these procedures on behalf of its clients who otherwise would need to hire extra staff and invest in new resources to do it themselves.

8. *Financial benefit of someone else financing the purchase*

DPP absorbs all transaction costs and financial cost for the purchases it makes on behalf of its clients. Also, the payment terms DPP offers its clients lessen the financial burden of large purchases.

Armed with the list of customer benefits, it is now possible to determine all the other components in the framework and to make the “grid”.

Table 2. The direct purchasing consultancy and facilitation business logic

Customer Benefit	Activities & Processes	Resources & Capabilities	Strategic Resources
Price benefit	<ul style="list-style-type: none"> Finding suppliers Conducting price negotiations Direct deliveries Cutting out middle-men and agents 	<ul style="list-style-type: none"> negotiation skills Good relations with freight companies and factories knowledge about prices and products A large database of suppliers 	<ul style="list-style-type: none"> Very long relationships with factories and suppliers
quality assurance	<ul style="list-style-type: none"> Inspecting factories Pre-shipment inspection of goods Insuring shipments 	<ul style="list-style-type: none"> Skills in identifying good and trustworthy factories Own inspection offices (mainly in China) Experience and knowledge about most probable quality problems 	<ul style="list-style-type: none"> own inspection offices in the Far East.
The Firms liability in problem situations	<ul style="list-style-type: none"> Organising insurance Responding to customer complaints Taking care of damaged goods, refunds and claims 	<ul style="list-style-type: none"> Staff Experience and knowledge of how to deal with problem shipments Insurance policies Agreements with factories 	
Outsourcing after-sales service	<ul style="list-style-type: none"> Receiving returns Servicing returned goods 	<ul style="list-style-type: none"> Service facilities and staff 	
Outsourcing the function of product search	<ul style="list-style-type: none"> Visiting shows, exhibitions and factories Ordering, testing and displaying samples meeting with clients Searching for new suppliers and competent factories Following market trends 	<ul style="list-style-type: none"> People with experience, skills and knowledge on products and prices Database of competent suppliers Sources of information on trends etc. Funds A showroom Facilities for negotiations 	<ul style="list-style-type: none"> Experienced staff long relationships with clients
Getting products delivered already correctly processed for further distribution and selling	<ul style="list-style-type: none"> Taking care of certifications Designing product packaging Taking care of product 	<ul style="list-style-type: none"> An office building Skilled staff Agreements with testing laboratories and testing agencies 	

	labelling, ENA coding, carton markings etc. <ul style="list-style-type: none"> • Making manuals 	<ul style="list-style-type: none"> • Contacts to design companies • Knowledge about client requirements • Contacts to translators 	
Outsourcing the entire administrative side of the purchasing process	<ul style="list-style-type: none"> • Order placement • Tracking shipments • Communicating • Certification • Coordination 	<ul style="list-style-type: none"> • Office facilities • knowledge and capabilities in handling shipments • Order tracking system 	
Financial benefit	<ul style="list-style-type: none"> • Negotiating banking facilities • L/C • Payment terms 	<ul style="list-style-type: none"> • Good relations with commercial banks • Funds and good finance • Staff 	

5.3 Comparison of the two business logics and making hypotheses

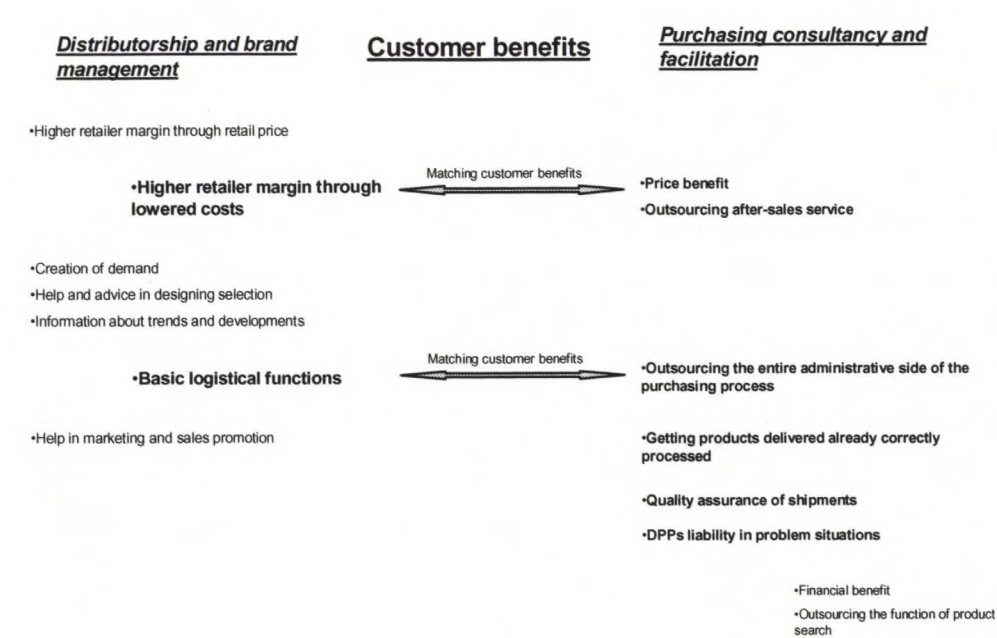
Having analysed in detail the two business logics, it is possible to make a comparison between the two. More over, the making of tables 1 and 2 has made it possible to put the two differing businesses next to each other in a visual and hence very informative way. The framework itself is simple in its principles and it is best used in creating simple but visual representations of an abstract concept such as a business. Here lies its strength.

What follows then is a series of comparisons between the corresponding components of the two businesses. The purpose of such exercises is to find out where the differences and similarities lie, and to use these findings in the making of **hypotheses** (or predictions) about how the project will succeed. All in all, 9 of such hypotheses will be made.

5.3.1 Comparing customer benefits

We start by comparing the *customer benefits* from both of the business logics. In the comparison, the first columns are taken from tables 1 and 2, after which they are put next to each other. After this, matches and mismatches are picked out. Illustration of this comparison is below.

Table 3. Comparison of customer benefits



What can immediately be seen is that the most prominent matches are in the provision of logistical functions and in shipment handling. The requirement of *basic logistical functions* on the left side is matched by four entries on the right side. What can be deducted from this is that DPP should not have any problems in fulfilling clients logistical and order handling needs in the new business.

1. Hypothesis: There will not be problems in the physical functions of delivering goods and in the handling of necessary paperwork and documentation.

Another point where matches can be found is between the requirement of lowered costs on the left side and two entries on the right side. The lowered costs in this case would come from the fact that DPP delivers directly from factories without warehousing, which in turn lowers all around costs in the supply chain. The second source of lowered costs is DPP's after-sales service. This would take the responsibility of handling returns and damaged goods from the client thus reducing costs.

2. Hypothesis: ISG's products should be competitively prices because of the relatively small added costs from DPP.

On the minus side however, there still remains entries on both sides without any matches. When looked at closely, the mismatches seem to all be concerning knowledge about trends, fashions and especially about the creation of demand. All in all, there are 5 required customer benefits that remain unmatched by DPP's current business logic.

3. *Hypothesis: DPP will have problems in brand marketing, demand creation and sales promotion. Also, the company will be unable to provide its clients with the help they need in designing selections and there will be a gap in DPP's knowledge about the industry and its developments.*

5.3.2 Comparing activities and processes

Below is a similar kind of a comparison picture for *Activities and processes* as what was made for customer benefits.

Table 4. Comparison of activities and processes

<u>Distributorship and brand management</u>	<u>Activities & Processes</u>	<u>Purchasing consultancy and facilitation</u>
<ul style="list-style-type: none"> •Order tracking •Order relaying •Order processing •Packing, labelling, etc., according to clients needs •Taking care of returns and faulty items 	Matching activities ↔	<ul style="list-style-type: none"> •Organising insurance •Responding to customer complaints •Taking care of damaged goods or problem shipments •Taking care of refunds •Taking care of claims for damages etc. •Receiving returns •Servicing returned goods •Either returning serviced products to or refunding the customer •Taking care of product labelling, ENA coding, carton markings etc. •Placing orders and making required paperwork •Tracking shipments
<ul style="list-style-type: none"> •Displaying products in an attractive environment •Conducting sales negotiations and regular meetings •Making selections together with clients 	Matching activities ↔	<ul style="list-style-type: none"> •Visiting shows, exhibitions and factories •Displaying samples for clients convenience •Having regular meetings with clients to discuss new ideas
<ul style="list-style-type: none"> •Following world trends •Following developments in the industry •Meeting competitors and knowing their products •Following developments of client company 	Matching activities ↔	<ul style="list-style-type: none"> •Following the market and offerings of clients competitors •Following market trends and changes in consumer preferences

The first impression when looking at the table is that there seems to be more matches here than there were in *customer benefits*. Most of the matches are in activities concerning the type of interaction that is required between client and company. This is probably the direct result from DPP being primarily a sales organisation that is accustomed to dealing with clients and creating a working relationship with them.

Likewise, activities on the left side concerning the following of world and industry trends and changes in fashions are matched on the right side by activities such as visiting shows and exhibitions and following the market and offerings of clients' competitors. The difference of course is that so far these activities have been performed in DPP for other industries and product groups than from that of ISG Corp. The skills however are in place, so learning should be quite rapid.

4. *Hypothesis; although DPP lacks knowledge about ISG's industry, it has the capacity to learn fast and it performs the activities necessary for gaining that knowledge, and thus problems in this field will be short lived.*

Also, direct matches can be found in activities and processes involving logistics and the administrative side of shipments and deliveries. In fact, this is the one area where matches are the clearest and problems should be non-existent.

However, matches were not found for the following activities and processes:


- advertising and sales promotion
- direct communication with consumers
- Building brand awareness and preference amongst consumers
- Taking part in customers sales promotions
- Providing goods for special offers and sales promotion events
- Having salespeople at clients stores

From the lack of these activities it can be assumed that the biggest problems and shortcomings will be in brand building, advertising, and in sales promotion.

5. *hypothesis; DPP will have serious problems in building brand awareness and preference for ISG. So much so, that the reintroduction of ISG's brand to the Finnish market might not even succeed.*

5.3.3 Comparing strategic resources

Table 5. Comparison of strategic resources

<u>Distributorship and brand management</u>	<u>Strategic resources</u>	<u>Purchasing consultancy and facilitation</u>
<ul style="list-style-type: none"> •Highly desirable brand with clear brand strategy 		<ul style="list-style-type: none"> •DPP has relationships going back decades with some factories. These kinds of relationships give DPP a special edge in getting good prices and terms
<ul style="list-style-type: none"> •Warehousing 		<p>DPP has its own inspection offices in the Far East who handle quality inspections</p> <p>The staff at DPP have an experience of over 30 years in consumer products, and are thus in a very good position to find and develop new products</p>
<ul style="list-style-type: none"> •Good relations with industry players and especially clients 	<p>Matching strategic resource</p> 	<p>DPP has very long relationships with its clients that enable it to understand their needs in detail</p>

According to the table above, there is only one match between the distinct strategic resources of what the firm has and what a distributor company can have. These resources are the very long and trusting relationships DPP has with some of its clients who, amongst other things, are also some of the biggest sporting goods retailers in Finland. Thus, DPP has some very important business relations within the industry already established.

6. Hypothesis; DPP will have an edge over its competitors in getting attention from some of the largest sporting goods retailers in Finland.

However,

7. Hypothesis; the lack of warehousing facilities will narrow DPP's options but will only mildly affect the firms ability to operate as the distributor for ISG Corp..

The most important issue though that the comparison brings out is the question about the strength of the brand itself. A strong brand is the first entry on the left side of the table, but there is nothing matching on the right side. This could be considered a serious flaw.

The question about the brand is however a problematic one because it in a way falls between the cracks in the comparison. On one hand, the ownership of a strong brand is the most important competitive advantage a distributor company can have. On the other hand, it can not be counted as a competitive advantage for DPP because the distributorship of ISG is not part of its business yet. Thus what needs to be made is a subjective estimate of how strong ISG is per se regardless of DPP. In other words, the strength of the brand is independent of DPP, and it will be estimated independently.

Before Direct Purchasing Partners became the distributor of ISG, the market position of ISG can be estimated as medium at best. Its name was very well recognised amongst consumers, but it had not appeared on the Finnish market for quite a few years, and it was only modestly visible elsewhere in the world. Some of its promotional efforts such as sponsorship deals were quite prominent, but ISG had not come out with a global advertising campaign for a long time. In addition, it had been unable to find a willing distributor in Finland or Sweden for a number of years, and many retailers across Europe were discontinuing the sale of ISG in their stores. In short, ISG was very well known due to its past success, but it was struggling to get back on its feet.

8. Hypothesis; Direct Purchasing Partners will have a hard time reintroducing ISG to the Finnish market due to its relatively weak market position.

5.3.4 Comparing resources and capabilities

The final step is to make a comparison of resources and capabilities. So far the comparison exercise has brought out shortcomings in the *customer benefits* and in the *activities & processes* components concerning brand building and advertising. Also, there seems to be a lack of *strategic resources* especially concerning the strength of ISG. The last phase gives indication of how difficult it would be to bridge these gaps since resources and capabilities are the building blocks for doing so.

Table 6. Comparison of resources and capabilities

<u>Distributorship and brand management</u>	<u>Resources & capabilities</u>	<u>Purchasing consultancy and facilitation</u>
<ul style="list-style-type: none"> • Knowledge about client company's needs • Capabilities in anticipating trends and fashions • People with sales and negotiation skills 	↔	<ul style="list-style-type: none"> • People with very good negotiation skills • Sources of information on trends etc. • Funds and time to send people to shows and exhibitions
<ul style="list-style-type: none"> • A showroom • A suitable office building with office equipment • People with skills in order handling, shipment tracking etc. • Facilities and people to take care of returns • Knowledge about clients internal logistical systems and needs • IT-system for order placement and relaying to principal 	↔	<ul style="list-style-type: none"> • A showroom for putting samples on display • Office facilities and equipment • People with knowledge and capabilities in handling shipments and orders • An advanced system for tracking shipments • Knowledge about client requirements regarding labelling, packaging etc. • Staff to respond to complaints and problems • Service facilities • Service staff
<ul style="list-style-type: none"> • Visiting professionals • Marketing material from principal + self-made marketing material • Help from principal • Brochures, catalogues and samples 	↔	<ul style="list-style-type: none"> • set of brochures and catalogues • 1 set of samples paid for by the distributor • Visiting professional • IT-system for order placement • 1 yearly distributor meeting

The comparison above once again confirms that DPP is well equipped to take on the responsibilities of a brand manager when it comes to monetary and tangible resources. Also, there are already more matches in intangible resources and capabilities than before. For instance, the need for capabilities in anticipating trends and fashions is met with similar entries on both sides.

However, the picture above only provides reference to resources that have matches in both business logics. By going back to tables 1 and 2 we can see what resources and capabilities are missing. These are:

- People with the right kind of experience in marketing and advertising
- Events and happenings where products are displayed
- Time
- People with industry specific experience and knowledge

- Knowledge about competitors
- Events etc. to which clients can be invited to
- Information and market research provided by the principal
- People dedicated to the promotion activities
- Marketing materials

The list above confirms what has already been brought out in the earlier comparisons. Mainly, the lack of people with industry specific knowledge and experience is the biggest resource gap that comes up. Also, there is a lack of knowledge about brand marketing and advertising.

However, it is worth bringing out that quite a few of the missing resources can be easily obtained or hired into the company. For instance, the lack of people dedicated to promotion activities can be fixed with relative ease by simply employing such people. Hence, the difference between the old business logic and the new are not very large in terms of resources and capabilities and the move should not pose a big problem.

9. *Hypothesis; DPP has in place most of the resources and capabilities it needs to be the distributor of ISG. The biggest shortcomings are in the lack of people with industry specific knowledge and in the lack of knowledge and capabilities in advertising and brand marketing. These specific gaps in resources can result in problems in reintroducing ISG to the Finnish market.*

6. Testing the hypotheses

The comparison between the two business logics has now been completed, and as a result of the exercise, 9 hypotheses about possible future pros and cons in the change project were produced. The hypotheses were intended to put into words points about the compatibility of the business logics that the comparison brought out. From the comparisons it is possible to see that being the distributor of ISG is technically quite close to DPP's normal line of business, and there are many points of possible synergy effects. Most of the processes are in place, but a few vital resources are missing.

In this part of the paper the hypotheses from the previous chapter shall be proven to be either right or wrong. In other words, the framework's ability to predict success in moving into new businesses shall be evaluated. This will be done by comparing the hypotheses to a short diary I wrote in September 2003 about events that took place the previous summer.

We begin by taking a step back in time to November 2002. At that point in time ISG had been distributed in Finland for one year by DPP, but only through one hypermarket chain. In a marketing meeting held in London in November 2002, it was agreed that I and a colleague of mine would take charge of handling ISG. It was also agreed that we should begin targeting all sporting goods retailers and department store chains in Finland instead of just the one hypermarket chain mentioned earlier. This was partly due to DPP's ambition of making ISG big in Finland again. More importantly though, it was due to the fact that there was a big sales budget set by the principal that had to be met. This in turn required enlarging the client base substantially. Thus, the project of reintroducing ISG to the Finnish market began.

What follows is a translation of the diary I wrote. It was originally written in Finnish, but the same message should come across in English too. It begins from the time when I and my colleague began preparing for Spring/Summer 2004 season.

6.1 The diary

Paragraph 1: getting samples for the Spring/Summer 2004 collection

"The season began by us arguing with ISG about getting the samples in time. Samples for the next season are usually ordered about 3-4 months prior and only based on vague sketches. Only after getting a firm date of the arrival of the samples is it possible to book meetings with clients. The problem was, that countries that did not belong to so called 'key countries' would receive their samples many weeks after the 'key countries'. We were not counted as a 'key country'. We did not get any prior information about the arrival of the samples until they were actually in our office. In addition, they arrived bit-by-bit if at all.

The problem with all of this was that Finnish sporting goods buyers begin their buying rounds earlier than in other countries. They do them around late-May to early-June. We only started

receiving the first samples in the beginning of June. We could not book meetings with the clients when they wanted them because we did not know if we would have anything to show them. In fact, in the previous season we had booked a meeting with Client A (Finland's largest sports store chain), but had to cancel because we did not have samples. As a consequence, we lost the whole season with that client. Now we were afraid to book another meeting with them beforehand because we didn't want to have to cancel once again.

The problem with the samples was compounded with the fact that although Finnish sporting goods buyers do their rounds earlier than the rest of Europe, they still do their actual purchases later than others. ISG had serious trouble understanding why we needed our samples so early, but then orders only came in late August. ISG demanded to have all orders in already latest mid-July, with the threat of not being able to deliver the products if the orders did not come in on time. It was almost like talking to a brick wall trying to explain to the people at ISG Corp. that Finnish people are on holidays in July and then come back in August, which is when they do their purchase too. We simply could not get the orders from our clients when ISG demanded because the clients were at their summer cottages with their phones shut. “

”The samples finally arrived in Mid-June. Then we started booking meetings.”

From the first paragraph of the diary, it is clear that there was a lack of knowledge of clients needs both on DPP's side and ISG's side. These kind of problems would however be already smoothed out during the next season. Thus hypothesis 4 has gotten some verification already.

More importantly though, there is a lack of flexibility on the principal side due to their incapability of sending samples in time and to wait for orders the time period that was necessary. Thus, the comparison analysis has failed to recognise an important principal resource; *principals flexible production systems*.

Paragraph 2: booking and having meetings with potential clients

The second paragraph is about what happened and what was said at the sales meetings with clients. I have divided the text into smaller bits with each client meeting forming its own sub-paragraph. Recording the meetings in verbatim was not possible however. In addition, they lasted several hours

each, so it would not be suitable to explain everything that was said in them. Instead, I have written about clients attitudes, comments etc. regarding three things;

1. The clients interest and receptiveness towards the ISG brand
2. ISG's suitability for the client (i.e., how suitable were ISG's products to the clients own customers and the clients own strategy)
3. Matters concerning logistics services, fulfilling orders and other administrative concerns

"We started booking meetings with clients in Mid-May, and the first meetings were held a few weeks later. Booking meetings was pretty easy with clients that DPP has other business with. The hardest were the sports store chains and the department stores. They were concerned about ISG's questionable reputation. Some of them had even made prejudged decisions not to include ISG into their selections. According to them, ISG's reputation was spoilt by the previous distributor. He had apparently dumped prices so badly, that ISG had become 'tat' which was only sold from cardboard boxes in hypermarkets and that was used by the wrong sort of people. At client A (Finland's largest sports shop chain) ISG was apparently nicknamed 'Somali brand'. Almost all of the clients we met said the same thing, and kept on telling us the same story over and over again. They said that ISG's reputation was so badly tarnished that they did not believe the Finnish consumers would buy it anymore."

Client meeting 1. (A large mail order company). Information obtained from colleague.

Client 1. has been DPP's client for some 30 years now, and there is a very warm relationship between the companies. A meeting was booked with one phone call and it was scheduled for the 13th of June.

Clients' interest and receptiveness towards ISG

"The first reaction was quite positive. The company had sold products from ISG before with good success and experiences with ISG have always been good. However, there were some worries about the recent change in ownership at ISG, and the client was worried about how well shipments would

be handled. The client was afraid that ISG might be internally mixed up and in confusion because of all the changes in the company and because of all the rumours going around about it."

ISG's suitability for the client

"According to my colleague, the client thought that ISG's collection suited their needs only with a very narrow proportion of the selection. The client had said that their own customers were not very fashion oriented, so most of ISG's more fashionable models were automatically out. However, a few items were interesting."

Matters concerning logistics services, fulfilling orders and other administrative concerns

"My colleague said that this particular client is an ideal customer for Direct Purchasing Partners Ltd. Minimum order quantities would not be a problem since this client always orders everything by the thousands. On the other hand though, only very few items get chosen, so the selection will always remain small. The clients strategy is to sell a few products but in big volumes. The client handles themselves all internal logistics. Supplying then will be quite easy."

"The client does however require that all products have their own product codes and labelling. This will require for us to take the goods into our showroom and put the stickers on each product and bag ourselves. "

"The client had mentioned during the meeting that small mid-season replenishment shipments would be good so that they don't have to turn their customers down in case a product proves to be a hit. On the other hand, my colleague thought that it's actually good that we can not promise such shipments, because then the pre-order quantity would have been smaller and might have not reached the minimums. "

Client meeting 2; a department store chain

"DPP has done business with this client before and it has had an ongoing business relationship with it for years. We were able to get a meeting with them quite easily."

Clients' interest and receptiveness towards ISG

"Image and brand strength mean a lot to this client, so ISG's past and present image were big issues. The buyer for sports clothing and shoes knew ISG well and he also personally knew the previous distributor. Quoting his own words he said 'there I personally got to see close-up how a brand is destroyed'. He also told me that their company had a strict rule not to include into their selection brands that are being sold at hypermarkets. According to him, this was exactly how ISG had been destroyed. The previous distributor had sold all the hypermarkets and discount stores 'up to the brim' with shoes and clothing from ISG with ridiculously low prices. He said that after a brand is sold in such places, the brand is destroyed. He admitted that with certain brands one has to make concessions though. For instance Adidas and Nike are able to sell to discount stores and still be accepted by up-market stores. This is however only possible for very strong brands and even then it's not looked upon very nicely."

"Another interesting thing that came up from my conversation with this buyer was that there is a certain paradigm involved in introducing a brand to a new market. Specialist sports shops apparently are of the definite opinion that they will not be interested in anything that is being sold at hypermarkets such as Citymarket, Prisma and Anttila. Apparently, this destroys the brand. On the other hand though, these retailers are the biggest sellers of sporting goods in Finland. Thus, meeting sales budgets set by the principal almost requires targeting these channels even at the risk of destroying the image of the brand. But the hypermarkets then again want to buy brands that are being sold in specialist stores and that have good images. So it becomes an impossible 'either-or' situation and almost a dead-end. One thing is for sure though - selling to just specialist stores will not produce enough sales to meet budgets. What is funny about this paradigm is that everyone else except the people at ISG admits the existence of it"

ISG's suitability for the client

"As said before, due to the company's strategic decisions, only very few brands have the chance to be selected. ISG thus has no chance of being seen on this clients shelves. I did however find out that if a brand becomes an 'in-thing', it might get a second chance. However, this requires that the brand becomes recognised globally as an 'in-thing' and that it has a global advertising and promotion campaign backing it up."

"The discussion was over before we ever got to talking about logistics and other things."

Client meeting 3; a medium sized sports shop chain

"I had previously been in contact with this company, so it was not difficult to book meetings with both the shoes buyer and the clothing buyer."

Clients' interest and receptiveness towards ISG

"I first met the buyer for shoes. We discussed amongst other things the history of ISG as he was going through the collection. One of his first questions to me was about what buyers from other companies had said about ISG. I found his question odd, so I turned it around. I asked him what he thought others would have said. His answer was; 'probably some nasty things'. He gave me the exact same story about the previous distributor selling too much of ISG products to discount stores and how first ISG was everywhere and then nowhere. He said that after that incident the demand for ISG dropped to zero."

"On the other hand though, he said that ISG's collection was not as good then as it is now. It had apparently improved a lot. I asked him if ISG's history would affect his purchasing decision, to which he answered 'probably not much, but it's on my mind anyway'. He told me that history might affect more when he has his discussion about ISG with the store managers. At the end of the meeting he told me that his first impression is that the brand will not be seen on their shop shelves next season. He did however choose a selection of shoes he would present to the store managers at their buying days in August."

"A few weeks later we met with their buyer for clothing. She was no where near as negative about ISG as the shoe buyer was. She told me that she was well aware of ISG's bad reputation, but that she would base her buying decisions on the designs and prices of the clothes and not on the history of the brand."

ISG's suitability for the client

"The client had recently started a campaign intended to change their image to something more trendy and young style. This suited ISG quite well, since its emphasis was on fashion more than

functionality. Thus, all technical clothing from ISG's collection was discarded. Unfortunately so was most else. All tennis clothing and track & field clothing was discarded. She did however choose a rather extensive range of street clothing and apparel to go into their buying days in August."

Matters concerning logistics services, fulfilling orders and other administrative concerns

"The shoes buyer and the clothing buyer had completely different ideas about distribution. According to the shoes buyer large single shipments straight to their warehouse without further distribution was perfectly acceptable. Since the client did their own importing too, the goods could be shipped duty unpaid.

The clothes buyer on the other hand demanded that all goods be shipped individually to each store ready packed in carton quantities specified by the individual shops. She also demanded that goods should be delivered DDP (delivered duty paid) and that billing should absolutely be done in Euros. The shoes buyer said that billing in USD was no problem. The clothing buyer said that they themselves do not have any internal logistics facilities or capabilities and distributors should definitely take responsibility for these functions. Also, she said that their warehousing facilities were so limited that large single shipments were not possible to receive and handle. The shoes buyer contradicted all of this"

Client meeting 4; a large sports shop chain

"We first contacted this company in mid-February. We then agreed to get back to it later in spring or in early summer to book a meeting. However, due to the unsure arrival date of samples we did not want to make contact until all of the samples were in our showroom. We had during the previous season made arrangements with this client to meet, but we had to cancel in an embarrassing way when none of the samples we needed had arrived in time. This time all of the samples had arrived by mid-June and we finally contacted the client again in the beginning of July. When I called up the buyer, I was told that we were already 3 weeks late and that even if we had been on time, there would not have been any chance for them to take on a new brand like what we were offering. We then agreed that there was no point in continuing that conversation any longer, and we agreed to get back to it in November 2003 to look at the Autumn/Winter 2004/2005 collection.

Client meeting 5; a large retail shop chain (Information obtained from a colleague)

“Also this company is an old customer of ours with whom Direct Purchasing Partners Ltd has been doing business for many years. They are one of Finland largest retailers and they have stores all across the country. My colleague contacted their buyer for sporting goods and clothing.”

Clients' interest and receptiveness towards ISG

“The answer my colleague got from the buyer was very cold. Apparently this buyer had some years ago ordered goods from the previous distributor but had been told at the last minute that no goods will be shipped. The buyer had told my colleague that when the shipments were supposed to arrive, the distributor had stopped taking her phone calls and did not respond to her queries. She had then tried to seek help directly from ISG, but also they were unwilling or unable to help. She had even tried to buy the goods from distributors in other countries but failed at her attempts.

Another reason she gave for her negative answer was that they apparently already had too many brands in their selections and that their stock was already full. According to industry magazines, business in sporting apparel was going to be very slow that season, so placing new orders was even more improbable.

All in all, the client was very negative towards ISG. In fact, just hearing the name of ISG Corp. had apparently almost ended the conversation in its tracks.”

Client meeting 6; a very large hypermarket chain (Information obtained from a colleague)

“This client represents the hypermarket category from the largest end of the scale. The company has been a customer of DPP for many years. Getting meetings was no problem and the client had bought products from ISG in the previous season.”

Clients' interest and receptiveness towards ISG

“This client did not really have anything for or against ISG. The relationship between the client and DPP was such that the cooperation was very easy and ISG's bad reputation did not matter very

much. The buyer did however say that ISG was over priced and its products were much more expensive than for instance Nike and Adidas, and thus was not very price competitive.

ISG's suitability for the client

"Like hypermarket customers in general, this client wanted products suitable for promotions and so called 'corporate basics' models. Items such as college shirts, T-shirts and tracksuits with big logos fall under the 'corporate basics' category. The client said that it was exactly these items that Nike and Adidas were offering cheaper, and that made ISG over priced. The outcome was that the client chose a whole lot of items for their buying days but almost nothing got chosen in the end."

Matters concerning logistics services, fulfilling orders and other administrative concerns

"Logistics and reaching minimum order quantities have never been problems with this client. The client has the possibility of ordering very large quantities and they have ample warehousing facilities and resources in internal logistics. They handle all internal distribution themselves. The only logistical service they required was that the goods were packed in the correct carton quantities."

6.2 Later events

The result for the Spring/Summer 2004 season was very poor. The few clients that had taken in a selection for their internal buying days one after the other informed us of their negative decisions or placed orders that were substantially lower than hoped. In fact, the result was so bad, that ISG threatened not to deliver the few items that had been ordered. We were able to persuade them to deliver with the argument that not doing so would kill all of their chances of ever returning onto the Finnish market. They had already made matters very difficult by letting down clients before and doing it again would only make the situation even worse.

Even though the season had gone very badly, it was decided to give the project one more chance. Hence, we began preparing for the Autumn/Winter 2004/2005 season. However, the same discussions and arguments about samples started again and the project was finally put to an end by

the following email from the CEO of Direct Purchasing Partners Ltd to the person at ISG Corp. responsible for Scandinavia and other North Europe:

"Dear Miss X

17/9/2003

I am very concerned at our lack of success in introducing ISG range to our customers in Finland. Frankly speaking we had no idea of the depth of negative feeling, even hostility, towards ISG. Despite all our efforts and expense none of our customers at the end of the day decided to add ISG's range to their collection.

I am calling a review meeting during September as I feel that perhaps we should cease our activities with ISG as we are not achieving much progress either for you or ourselves.

In this respect we would ask you not to send the autumn/winter 2004 collection until we would reconfirm that we would indeed want to have them."

The reply to the email was;

"Dear Sir,

19/9/2003

I'm concerned too about the bad feeling of ISG in Finland, and consequently, sorry for our business. I hope one day we can come back stronger and stronger even in this market...thanks to all of you for your effort during this period, hope we can stay in touch."

Not long after these emails were sent, ISG Corp. was bought out by a group of investors and is currently undergoing severe restructuring. Over half of the people at ISG have either left the company at their own will or have been fired. ISG's products have been pulled off the market in many countries across Europe and still now in September 2004 a new distributor for ISG in Finland has not been found. However, ISG's logo was very visible at the Athens Olympics in 2004 and it could be seen on many athletes' suits in almost every event – perhaps there is light at the end of the tunnel after all.

6.3 Accuracy of the hypotheses

The purpose of this chapter is to determine how well the 9 hypotheses coincided with the events brought out in the diary. If an analysis like what has been made in this paper would have been done

before the project commenced, could the dismal outcome have been predicted or perhaps altered altogether?

Not all of the hypotheses are relevant here since the project ended almost before it ever began. The ones that instead are relevant are the ones that made statements about getting the project on its feet or otherwise are closely connected with getting started. All the relevant hypotheses are listed below with comments about how they connected with the diary directly after them.

- *Hypothesis: ISG's products should be competitively prices because of the relatively small added costs from DPP*

As it turned out in the diary, one of the hypermarket clients thought ISG was overpriced. Here it seems the framework has not made an accurate prediction. However, DPP had to first buy all the goods from ISG and then resell them with a small margin. It could then be assumed that prices were too high to begin with and DPP's margin only ~~made the~~ matter worse.

- *Hypothesis: Direct Purchasing Partners Ltd will have problems in brand marketing, demand creation and sales promotion. Also, DPP will be unable to provide its clients with the help they need in designing selections and there will be a gap in DPP's knowledge about the industry and its developments.*

This hypothesis is 100% correct in that if DPP would have had people with industry specific knowledge, it would have known more about ISG's bad reputation and about the hostile reactions some of the buyers would have. The result of this could have been that DPP would not have ever attempted entering the business of *distributorship and brand management* with ISG.

Also, the lack of experience in brand marketing, demand creation and sales promotion resulted in the fact that DPP was not able to turn the bad image of ISG into good. In the situation that DPP would have been fully aware of ISG's bad reputation, it still probably would not have been able to recreate its image through advertising etc due to its inexperience and lack of resources in those activities.

- *Hypothesis: DPP will have an edge over its competitors in getting attention from some of the largest sporting goods retailers in Finland*

This hypothesis was also correct. As it can be seen from the diary, we did not have problems in getting meetings and attention from most of the companies we contacted. Although we did encounter problems with some of them, this was only with companies DPP did not have good contacts with.

- *Hypothesis; the lack of warehousing facilities will narrow DPP's options but will only mildly affect DPP's ability to operate as the distributor for ISG.*

Also this hypothesis was correct. Referring to client meeting 1 with the mail order company, it came out that the client had hoped for some replenishment shipments. However, this did not affect their buying decision, and subsequently, this client ended up being the only one that did order goods from ISG.

Client meeting 3 with the medium sized sport shop chain also brought out some issues referring to this hypothesis. The clothes buyer had said that all goods would have to be individually shipped to each store across Finland. This would have posed a problem for DPP, but at the time, the problem was going to be solved by outsourcing the domestic shipments to an outside company. Thus, Direct Purchasing Partners Ltd still would not have been required to invest in these resources although it would provide competitive advantage if it did invest.

- *Hypothesis; DPP will have a hard time reintroducing ISG to the Finnish market due to its relatively weak market position.*

This hypothesis is of course the most important one and the one that proved to be fatal. In Porters terms, ISG was "stuck in the middle" with no clear strategy and a weak market position. It occupied a negative space in consumers' minds, which was reflected in the comments of the buyers we met. The brand did not present anything to the buyers which would have made them think that it would have produced more profit and retailer margin than another competing brand with a better position. In other words, it did not create *customer benefit* to the clients.

- *Hypothesis; DPP has in place most of the resources and capabilities it needs to be the distributor of ISG. The biggest shortcomings are in the lack of people with industry specific knowledge and in the lack of knowledge and capabilities in advertising and brand*

marketing. These specific gaps in resources can result in problems in reintroducing ISG to the Finnish market.

This hypothesis was proven correct in that DPP was lost for ideas on how to turn the negative image of ISG into positive. Getting the buyers to change their minds would have required a massive turn around campaign aimed at totally changing the image of ISG in Finland. This simply was out of DPP's realm of capabilities.

Also, the message that should come across from the diary is that DPP was willing and able to physically distribute the products of ISG. However, ISG was not able to keep up with what was required and this was evident from the problems with the samples and from the arguments about when orders should be booked in. Hence, there were some very important principal resources missing. One of these resources was already brought out in the diary.

As it so seems, most of the hypotheses made were proven to be correct or very close to what really happened. Shortcomings in vital resources and skills were unearthed and serious problems in making the leap into the new business successful could be predicted. The diary proved that those predictions were correct, and I am thus compelled to conclude that the framework does in fact work. This is to say, the framework is suitable for analysing moves into new businesses from a competence-based view, and the answer to the second aim of this thesis is a positive one.

Part III

7. Thoughts and conclusions

7.1 About the framework

The detailed look into the intricacies of the two business logics presented in this thesis has cast a positive vote for the framework. It has been now shown that it can be a valuable tool for strategic analysis and that it does give plausible explanations to strategic events.

However, no framework or management theory is complete, and neither is mine. For instance, the categorising of things like it was done in my framework is always a bit tricky. Is something a resource or is it a strategic resource, or is it perhaps both? Does it create customer benefit directly or through activities? Once again, it probably does both. Companies are intricate systems with everything affecting everything in a most often unpredictable ways.

However, one has to start somewhere and studying a complicated system like a business organisation requires for it to be broken down into chewable and comprehensible smaller bits. This is especially true in situations where the company is sizing itself up and pondering what its chances are in succeeding in a new business. The main point is that some kind of categorisation has to be done in the name of practicality. The challenge then is to identify which bits matter and how to study them. What I have suggested is that the important bits can be found mainly from inside of the firm. I have also made suggestions on what the names of those bits could be and how they could work together.

In addition to the problem of categorising, the framework has another problem. Mainly, it can become very large. The case example of ISG and DPP was simple with only a relatively small amount of resources etc. to deal with. The situation becomes more complicated when analysing for instance an international conglomerate with a multitude of divisions and interconnecting activities. One would need a paper the size of a football field to list all the resources, capabilities, strategic resources, activities and customer benefits the company has and does.

Nevertheless, this is a technical problem and attention should be directed to the main thing the framework has to offer. This is the general approach to the whole concept of analysing the intestines of a company. What are important are the relations between the components and not how big the lists become. The framework provides a tool that could be used to make a decisive **measurement** of a strategic situation. Strategic questions are most often almost more philosophical than anything else. The framework offers a way of quantifying things, and getting a more material grip on the questions at hand. The fact that companies are huge and complicated systems is a fact that must be accepted if attempts to study them are undertaken.

7.2 On validity and reliability

Two methods were used in the empirical part of this paper. Firstly, there was the interview and then there was the diary. In the next paragraphs I evaluate and bring out some points about their validity and reliability.

The interview with the clothing buyer has a validity problem. At the time it was conducted, it was not designed for exactly the purpose of what it was used for here. Its main aim was to get information on what other distributor companies are like and to obtain information about buying cycles in the industry. Questions were also designed around those themes. Almost immediately after the interview was conducted, the subject of my thesis changed somewhat and started forming into what it is now. The interview was aimed at defining the *distributorship and brand management* business logic, but from a different angle. I thus decided to use it because some of the answers provided valuable information even though they were originally intended for another purpose. This explains also why only 2 of the original 6 open questions were used. Also, the answers were recorded by writing them down as the interviewee spoke. This resulted in the need for summarizing some of the answers in order to keep up and even discarding some of them as unimportant. These activities are of course somewhat subjective and thus put the reliability of the recordings into question.

The diary also has a slight reliability problem. This comes from the fact that it is quite subjective and based on my personal recollection of events. Moreover, it was written after the project had ended and thus might contain some finger pointing and one sided views. The discourse of the diary

is that of a person who was intricately involved in a project that failed. A critical discourse analysis would take this fact into account and remind that the meaning of the text and the picture it paints has been tinted by the mindset of the writer. In other words, the writer has created a one sided view of the world through the way he has used words and text in the diary, which in turn has been affected by his mindset after the project.

7.3 Implications of the framework and suggestions to Direct Purchasing Partners Ltd

What the framework implies is that it is the 4 components and their fit with a new business that contribute to either success or failure. It also implies that components and their validity erode as customer benefits change.

In its current form, DPP's business and its service-chain loosely meet the criteria of a core competence. The competence is in making products importable and marketable. This competence is flexible in that it doesn't matter what the product is or where it comes from. It can hence be applied in a multitude of ways and in a myriad of product categories. DPP is right now living the phase of reaping the benefits of a core competence built over 10-15 years. This is because the core competence of Direct Purchasing Partners is especially valid now that international trade has been freed and China has opened up its doors to the world. Goods are being shipped back and forth from all parts of the world, and companies need competent partners in making sure those shipments go smoothly.

DPP has survived and done well thus far because it has this core competence, but as it is getting stronger through increasing experience, changes in customer benefits are beginning to show.

Customer benefits such as DPP taking responsibility for quality assurance of shipments, outsourcing the function of product search, and getting products delivered already correctly processed for further distribution and selling are eroding through a multitude of developments. Mainly, they are eroding because the factories who previously did not and could not be in direct contact with companies in Europe are now displaying their products with the correct specifications and level of quality at their doorsteps. Also, information technology and a rise in education are making it easier to communicate with factories about packing details and other specifications. This

trend will certainly only develop even further. It will become easier and less time consuming for customers to do these functions themselves.

The future challenge for DPP is to keep its core competence valid in the years to come. It can do this by finding new *customer benefits* to create. It must play on its relative advantages and invest in creating services its clients need but have relative disadvantages in doing themselves. True flexibility is one such advantage that will always remain an advantage for DPP but one that its clients can not have themselves. There are immense reserves of knowledge, capabilities and valuable resources within the firm. Finding new ways of combining them is the million dollar challenge.

More importantly though, there is a clear need to build totally new areas of competence to widen the “opportunities arena”. Once again, this can be done by finding out what the future *customer benefits* will be and how the current ones will shift. After they have been identified or a vision of them has been created the slow process of building the competences should begin. In 2004, DPP has taken steps towards doing just so, and it proves that the need for change has not gone unnoticed. A process of building competence in a new area of business has begun, but now it has to be given sufficient time to build into a true **core** competence.

References

- Ala-Härkönen Martti (1997) *Diversification paths and performance in the global base metals industries*, Helsinki School of Economics and Business Administration.
- Alasuutari Pertti (1999) *Laadullinen tutkimus, 3. uudistettu painos*, Osuuskunta Vastapaino, Tampere.
- Albert Kenneth J. (1983) *The Strategic Management Handbook*. McGraw-Hill, New York.
- Ansoff Igor (1965) *Corporate strategy: an analytical approach to business policy for growth and expansion*. McCraw-Hill, New York. s
- Ansoff Igor (1990) *Strategia 2000*. Oy Rastor AB/Rastor-julkaisut, Helsinki, p. 123-136.
- Aula Pekka (1999) *Organisaation kaaos vai kaaoksen organisaatio?* Loki-Kirjat, Helsinki.
- Barney Jay (1991) *Firm Resources and Sustained Competitive Advantage*, Journal of Management 1991, Vol. 17, No. 1, 99-120, Texas A&M University.
- Bettis Richard A. and Prahalad C.K. (1995) *The Dominant Logic; Retrospective and Extension*, Strategic Management Journal; Vol. 16, p. 5-14.
- Collis David J. and Montgomery Cynthia A. (2002) *Competing on Resources; How do you create and sustain a profitable strategy?* Harvard Business Review, July-August 1995, p.118-128.
- Courtney Hugh (2001) *20/20 Foresight; Crafting Strategy in an Uncertain World*, Harvard Business School Press, Boston, Massachusetts.
- Fairclough Norman (1997) *Miten media puhuu; suomentaneet Virpi Blom & Kaarina Hazard*, Osuuskunta Vastapaino, Tampere.

Grant M. Robert (1991) *The resource-based theory of competitive advantage: Implications for strategy formulation*, California Management Review, Spring 1991, p. 114-135

Hamel Gary, Prahalad C.K. (1996) *Competing for the future*, Harvard Business School Press, Boston, Massachusetts.

Huolman Mika (1995) *Assessing corporate diversification; An interpretation of Rumelt's categories and an empirical test on Finnish and Swedish pulp and paper firms*, Helsinki School of Economics and Business Administration.

Inkiläinen Raimo (1994) *Transformation Beyond Skill; A Process of New Capabilities Development In a Trading Company*, Helsinki School Of Economics and Business Administration.

Leminen Seppo (1999) *Gaps in buyer-seller relationships: Case studies in the telecommunication industry*, Swedish School of Economics and Business Administration, Finland.

Makridakis Spyros (1995), *Forecasting: Its role and value for planning and strategy*, INSEAD Working papers, 95/54/TM

Mintzberg Henry, Ahlstrand Bruce & Lampel Joseph (1988) *Strategy safari; A Guided Tour Through the Wilds of Strategic Management*, Prentice Hall Europe, Hertfordshire, UK.

Nonaka Ikujiro, Takeuchi Hirotaka (1995) *The Knowledge Creating Company; How Japanese Companies Create the Dynamics of Innovation*, Oxford University Press, New York, p. 124-159.

Porter Michael E. (1998) *Competitive Strategy; Techniques for analyzing industries and competitors*, The Free Press, New York.

Porter Michael E. (1998) *Competitive Advantage; Creating and sustaining superior performance*, The Free Press, New York.

Prahalad C.K. and Hamel Gary (1990) *The Core Competence of the Corporation*, Harvard Business Review, May-June 1990, p. 79-91.

Rumelt Richard P. (1988) *Strategy, Structure and Economic Performance*, Harvard Business School Press, Massachusetts.

Räsänen Keijo (1994) *Kehittyvä liiketoiminta; haaste tulevaisuuden osaaajille*, Weilin + Göös, Espoo, p. 36-39.

Sanchez Ron, Heene Aime (2000) *Theory Development For Competence-Based Management, Advances in Applied Business Strategy, Vol 6, Part A*, JAI PRESS Inc., Connecticut.

Sanchez Ron, Heene Aime (2000) *Implementing Competence-based strategies; Advances in Applied Business Strategy, Vol 6, Part B*, JAI PRESS Inc., Connecticut.

Sanchez Ron, Heene Aime (2000) *Research in Competence-Based Management; Advances in Applied Business Strategy, Vol 6, Part C*, JAI PRESS Inc., Connecticut.

Sanchez Ron, Heene Aime, Thomas Howard (1996) *Dynamics of Competence-Based Competition; Theory and Practice in The New Strategic Management*, Elsevier Science Ltd, UK.

Santalainen Timo (1991) *Resurssijohtaminen; visiosta muutokseen ja tulokseen*, Weilin + Göös, Espoo.

Von Clausewitz Carl (1968) *On War*, Penguin Books Ltd, England, p. 164-167.

Wernerfelt Birger (1995) *The Resource-Based view of the firm; Ten years after*, Strategic Management Journal, Vol. 16, p. 171-174.

Whittington Richard (2001) *What is strategy – and does it matter? Second Edition*, Thomson Learning, UK.

Other:

All references to Michael J. Enright refer to teaching material from the following course taught at the Hong Kong University School of Business: *BUSI0009A.B.C BUSINESS POLICY*, by Professor Michael J. Enright. More information can be obtained from:

<http://www.fbe.hku.hk/courses/courses.offered.asp?doc=BUSI0009A.B.C&yearheld=2004-2005>